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- Lessons from the Chicago Fire
- A Camera Reaches 100
- Cleaned by Capitalism
- Plunder Gets a Boost

FEBRUARY 2000

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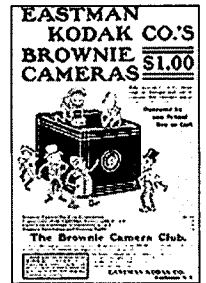
IDEAS ON LIBERTY

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Cover art: Detail, "Memories of the Chicago Fire, 1912" by Julia James. Courtesy Chicago Historical Society.

PERSPECTIVE

No Dog in that Fight

As satisfying as it was to see the World Trade Organization meeting reduced to dithering, no meticulous free trader could have taken sides in the confrontation last fall involving the WTO bureaucrats, the street mob, and the jackbooted Seattle police.

There were no "Free Traders Against the WTO" signs in sight. The free trade movement, such as it is, has missed the boat. The time to stake out a principled position was several years ago, when the WTO was first created. For most people now, *pro*-free trade and *anti*-WTO does not compute. Yet that is the position most consonant with liberty and property.

When the most prominent free traders endorsed creation of a bureaucracy that promised to support their abstract principles, they ignored lessons of political economy they routinely apply to most other areas of public policy. Public Choice teaches that bureaucrats face systemic incentives adverse to liberty. Applied to the case at hand, Public Choice would foresee that an international bureaucracy purportedly directed at diminishing government power over trade would sooner or later do the opposite. Too many free traders seem to believe that WTO bureaucrats and their political sponsors breathlessly await the next policy paper demonstrating that opening our market is good for *us*.

Predictably, the trade managers are concerned with things other than liberty and sound economics. The WTO is busy becoming the TWO—the Third Way Organization, an imperialistic National Labor Relations Board, Food and Drug Administration, and Environmental Protection Agency rolled into one. This, incidentally, is what most of the street mob wanted. (It is *not* what the people of the developing world want.)

Historically, the phrase *free trade* was not followed by the word *but*. That popular slogan—"I'm for free trade, but I'm for *fair* trade"—would have been doubletalk to Cobden, Bright, and Bastiat, who understood that government power denatures free trade, the



concomitant of a foreign policy of nonintervention. Let's hope that the American free-trade movement rediscovers its roots and resumes its quest for the unconditional elimination of all U.S. trade barriers.

* * *

No news report about a hurricane, tornado, or earthquake in the United States is today complete unless it includes details of the response of the Federal Emergency Management Administration. It's hard to believe that was not always so. Daniel Oliver reminds us that one of the great disasters in American history brought virtually no government response whatever.

When it comes to disasters nature seems particularly unkind to the poor nations of the world. As Barun Mitra shows, this is neither vendetta nor coincidence.

If supply and demand don't converge as a result of every market participant's having perfect knowledge, as textbook economics often holds, how does it happen? Israel Kirzner salvages the law of supply and demand in a distinctly Austrian manner.

In their never-ending effort to subordinate the individual to the state, Progressive intellectuals concoct caustic solutions designed to dissolve all notions of natural rights. James Bovard distills the latest sample and finds the usual snake oil.

Forget the rule of law. If special interests fear competition from Wal-Mart and other consumer blessings, there's little to stop them from getting an edict from the legislature to thwart the new retailers. Timothy Sandefur describes the recent case in California.

Hidden in the controversy over foreign affairs—"isolationism" versus "internationalism"—is an important matter that few want to discuss: whether America is a republic or an empire. Joseph Stromberg notes that only a short while ago a group of prominent men and women saw the issue for what it really is.

If the Internet can be dangerous to children, what's the best way to protect them? The reflexive answer is "the government." Wrong, says Keith Wade.

Every time you turn around, the state controls another part of medical care. Few people see the danger. But Michael Hurd warns that Americans are making a pact with the devil.

To see that pact in action, one need only look to The Netherlands, where the government health system has the power of life and death. Melvyn Krauss's family experience is illustrative.

Passengers' frantic rush for overhead-bin space can make flying in a commercial airliner a nerve-wracking experience. It need not be. Edward Lopez applies the principles of markets to the handling of carry-on luggage.

When John F. Kennedy, Jr.'s private plane fell into the sea, nearly everyone wanted to know how it could have happened and what government could have done to prevent it. Eric Nolte devotes his experience as a pilot and flight instructor to bringing sense to the incident.

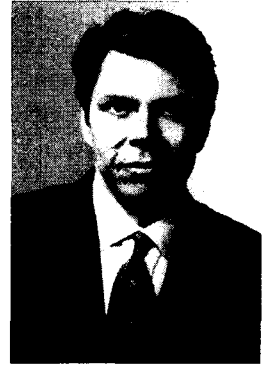
Here's what has caught the fancy of our columnists: Donald Boudreaux laments the lack of historical perspective. Lawrence Reed celebrates the birthday of a culture-shaping consumer product. Doug Bandow implores, "Not another draft!" Dwight Lee says spreading the work is not the same as spreading the wealth. Mark Skousen discusses Nobel-prize winner Robert Mundell. Charles Baird sees hypocrisy in how unions are treated by the law. And Thomas DiLorenzo, reading in a prominent newspaper that hurricanes bring prosperity, protests, "It Just Ain't So!"

Our reviewers deliver verdicts on books about feminism, the drug war, teachers judging teachers, American history, regulation, and the allure of bad news.

—SHELDON RICHMAN

Thoughts on Freedom

by Donald J. Boudreaux



Cleaned by Capitalism

I recently spoke in Toronto to students at a public-policy seminar sponsored by the Fraser Institute. The seminar opened with Fraser's Laura Jones reviewing the many sound reasons why environmental alarmism is inappropriate. Ms. Jones offered superb analysis and boatloads of relevant facts. Her case that the environment is not teetering on the edge of disaster was unassailable—or so I thought.

During both the question-and-answer period and the group discussions that followed, the students vigorously assailed Ms. Jones's case against command-and-control environmental regulation. These assaults all sprang either from mistaken notions about environmental facts or from a lack of historical perspective.

As I listened to student after student lament the horrible filthiness of modern industrial society, my mind turned—as it often does—to the late Julian Simon. I remembered a point he made in the introduction to his encyclopedic 1995 book, *The State of Humanity*: almost all of the pollutants that have been most dangerous to humanity throughout history are today either totally eliminated or dramatically reduced. Here are Simon's wise words:

When considering the state of the environment, we should think first of the terrible pollutants that were banished in the past century or so—the typhoid that polluted such rivers as the Hudson, smallpox that humanity finally pursued to the ends of the earth and just about eradicated, the dysen-

tery that distressed and killed people all over the world.

Indeed so.

The fact that people today wring their hands with concern over the likes of global warming and species loss is itself a marvelous testament to the *cleanliness* of industrial society. People dying of smallpox or dysentery have far more pressing worries than what's happening to the trend in the earth's temperature. Truly, we today are lucky to be able to worry about the things that we worry about.

Our Polluted Past

I decided to work that last line into my own talk later in the day. I knew that declaring that our modern world is vastly cleaner than was the pre-industrial world would be met with astonishment, or even hostility, by the students. Such a claim contradicts all that they are taught. So I quickly assembled irrefutable facts to back my claim. Here's my partial list of the myriad, mundane ways that modern society is unquestionably cleaner than pre-industrial society.

- As Simon pointed out, smallpox, dysentery, and malaria—once common threats to humankind—are today totally conquered in the industrial world. (Smallpox is no longer a threat even in the poorest parts of the world.) Antibiotics regularly protect us from many infections that routinely killed our ancestors.

- Before refrigeration, people ran enormous risks of ingesting deadly bacteria when-

Donald Boudreaux is president of FEE.



ever they ate meat or dairy products. Refrigeration has dramatically reduced the “bacteria pollution” that constantly haunted our pre-twentieth-century forebears.

- We wear clean clothes; our ancestors wore foul clothes. Pre-industrial humans had no washers, dryers, or sanitary laundry detergent. Clothes were worn day after day without being washed. And when they were washed, the detergent was often made of urine.

- Our bodies today are much cleaner. Sanitary soap is dirt cheap (so to speak), as is clean water from household taps. The result is that, unlike our ancestors, we moderns bathe frequently. Not only was soap a luxury until just a few generations ago, but because nearly all of our pre-industrial ancestors could afford nothing larger than minuscule cottages, there were no bathrooms (and certainly no running water). Baths, when taken, were taken in nearby streams, rivers, or ponds—often the same bodies of water used by the farm animals. Forget about shampoo, clean towels, toothpaste, mouthwash, and toilet tissue.

- The interiors of our homes are immaculate compared to the squalid interiors of almost all pre-industrial dwellings. These dwellings’ floors were typically just dirt—which made the farm animals feel right at home when they wintered in the house with humans. Of course, there was no indoor plumbing. Nor were there household disinfectants, save sunlight. Unfortunately, because pre-industrial window panes were too expensive for ordinary families—and because screens are an invention of the industrial age—sunlight and fresh air could be let into these cottages only by letting in insects too. Also, bizarre as it sounds to us today, the *roofs* of these dwellings were polluted with all manner of filthy or dangerous things. Here’s the description by historians Frances and Joseph Gies, in *Life in a Medieval Village*, of the roofs of pre-industrial cottages:

Roofs were thatched, as from ancient times, with straw, broom or heather, or in marsh country reeds or rushes. . . . Thatched roofs had formidable drawbacks;

they rotted from alternations of wet and dry, and harbored a menagerie of mice, rats, hornets, wasps, spiders, and birds; and above all they caught fire. Yet even in London they prevailed.

One consequence is described by French historian Fernand Braudel: “Fleas, lice and bugs conquered London as well as Paris, rich interiors as well as poor.” (See Braudel’s *The Structures of Everyday Life*.)

- Our streets are clean. Here, again, is Braudel, commenting on Parisian streets in the late-eighteenth century: “And chamber pots, as always, continued to be emptied out of windows; the streets were sewers.” Modern sewage disposal has disposed of this disgusting pollution. And that very symbol of twentieth-century capitalism—the automobile—has further cleaned our streets by ridding us of the constant presence of horse dung and of the swarms of flies it attracted.

- Consider, finally, a very recent victorious battle against pollution: toilets and urinals that automatically flush. Until a few years ago, every public toilet and urinal had to be flushed manually. Not so today. As automatic flushers replace manual flushers, we no longer must pollute our hands by touching filthy flush knobs.

These are just some examples of the countless ways that our ordinary lives are less polluted than were the ordinary lives of our ancestors. The danger is that people—like the students I met in Toronto—wrongly believe that the world is dirtier and less healthy today than in the past. And they blame capitalism. While some environmental problems still exist, they aren’t dire—and they are nowhere *near* as great as were the problems with filth that regularly harassed our grandparents and great-grandparents.

It is tragic that demagoguery fueled by misinformation leads people today to blame the free market for all real and imaginary environmental problems. In fact, the free market is the greatest cleanser and disinfectant of the environment—the most successful pollution fighter—that the world has ever known. □

Hurricanes Are Creative Destruction?

It Just Ain't So!

My employer, Loyola College, is a Jesuit institution and, as such, encourages its students to participate in myriad community-service programs. In teaching introductory economics, I propose on the first day of class a marriage of economic education and community service. I offer to give students aluminum baseball bats with which they will walk through the streets of Baltimore bashing in the windows of every car that they come across. The purpose of this rampage, I inform the students, is to stimulate employment and reduce poverty in the inner city.

The students are always quick to recognize that many jobs would, in fact, be created: auto repair, glass manufacturing, street sweeping, garbage removal, and so on. But once they are introduced to the first principle of economics—opportunity cost—they realize that to think of vandalism as an economic stimulant is a farce.

Sure, such vandalism may “create” certain jobs, but only by forcing people to spend money on auto repair that would have otherwise been spent (or invested) elsewhere. The jobs that are “created” are visible, whereas the ones that never materialize are invisible; but they are a very real part of the opportunity cost of using those resources. Government statistics do not measure the jobs, economic activity, and products that never materialize.

A Principle Missed

It is disheartening that a publication as distinguished as the *Wall Street Journal* would fail to understand this most elementary of economic lessons. But it has. In a September 17, 1999, news article titled “Hurricane Floyd

May Leave Robust Economy in its Wake,” *Journal* reporter Tristan Mabry wrote that Hurricane Floyd, which devastated parts of the eastern United States, “won’t likely damp economic growth and may actually have churned up some extra economic activity.” Mabry quotes Marilyn Schaja, chief economist at Donaldson, Lufkin and Jenrette Securities Corporation in New York City as saying that the storm “may actually give the economy a boost.”

Ian Shepherdson of High Frequency Economics, Inc., told the *Journal* that the hurricane actually accelerated GDP growth by 0.5 percent, or about \$30 billion. “That could add fuel to the nation’s already revved-up economy,” stated the economically clueless Mabry. U.S. Labor Department economist Richard Rosen chimed in, “We’re sensitive to the weather.”

Continuing with the weather theme, Mabry further stated that “like meteorologists, economists are quickly trying to focus their forecasts to reflect changing conditions.” In other words, as Austrian economists have long contended, economic “forecasting” is largely a fraud. When forecasts are off base (which they almost always are), they are simply revised, after the fact, ostensibly to “reflect changing conditions.”

All this talk of Hurricane Floyd as an economic stimulant is, of course, absolute nonsense. If what these commentators say is true, we should be celebrating the occurrence of natural disasters, vandalism, and even war, and investing our life savings in places like Serbia, East Timor, and Iraq. (One wonders how much of Mabry’s own portfolio is invested in Timorese bonds.) The American Civil War should have made the southern states—vast parts of which were looted and burned to the ground—the economic dynamo of the late nineteenth century, with Charleston and Savannah overwhelming New York City and Chicago as the nation’s centers of commerce and finance.

Property destruction always makes people worse off than they were before, but because of their ignorance of economics, Wall Street and government bean counters fall for what Henry Hazlitt, building on a Frederic Bastiat fable, called the “broken-window fallacy.” Once one understands the concept of opportunity cost, which is rooted in the reality of pervasive economic scarcity, then one does not fall for other fallacious notions either, such as a government-spending “multiplier effect,” because one recognizes the destructiveness of the taxation that is necessary to finance the government’s spending.

Nor could one be so foolish as to believe that government “jobs” programs could possibly create jobs on net. The only thing that such programs can do is to create government make-work jobs *by destroying more productive private-sector jobs*. No matter how such jobs programs are financed—through direct taxation, borrowing, or inflationary monetary expansion—they must divert resources from the private to the governmental sectors. In so doing, they destroy private-sector jobs that had been created as a means of serving consumers in order to generate patronage jobs whose main purpose is to allow politicians to buy votes and advance their careers with taxpayers’ money. Every government program ever proposed was advanced with the help of the fallacious notion that it will somehow “create jobs”—in addition to enlightening the unenlightened, healing the ill and the lame, saving the environment, etc., etc.

Pervasive Ignorance

It is no accident that so many supposedly educated people are ignorant of the most

basic concept in economics. As Ludwig von Mises wrote in *Human Action*, the state is perpetually at “war” with economics and economists, for economic education exposes the fraud involved in the something-for-nothing promises of politicians. “The paramount role that economic ideas play in the determination of civic affairs,” Mises wrote, “explains why governments, political parties, and pressure groups are intent upon restricting the freedom of economic thought.”

A variant of the broken-window fallacy is government “disaster relief.” The billions of taxpayer dollars spent in recent decades have subsequently created a massive moral hazard, which has made natural disasters much more economically harmful than they would otherwise have been. According to The Weather Channel, there have actually been fewer east-coast hurricanes in the past 20 years than the historical average, but the damage from them is much higher because coastal property is much more developed. An important reason why so much development has taken place in the paths of hurricanes is that the government subsidizes it with “disaster relief,” money for rebuilding, and federal flood insurance. This creates an even bigger role for government in future disasters.

The more involved the government becomes in “responding” to natural disasters, the worse will be the economic destruction caused by them. When economically illiterate journalists tell us that hurricanes and government create prosperity, we should answer resoundingly, “It Just Ain’t So!”

—THOMAS J. DiLORENZO
Department of Economics
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Lessons from the Chicago Fire

by Daniel T. Oliver

Imagine hearing on the news that one of America's largest cities had just been virtually destroyed by a manmade or natural disaster. What steps would have to be taken to deal with the calamity? How would the survivors be fed, clothed, and sheltered? After their basic needs were met, how would they be helped to find work, rebuild their homes, and return to their everyday lives? Would the government have to provide most of the relief supplies and money for rebuilding? Or could victims turn to charitable organizations and the generosity of their fellow Americans?

In 1871, one-third of the city of Chicago—including the entire downtown and surrounding neighborhoods—burned to the ground. While it may seem startling to Americans today, the government did almost nothing in response. But within two years, Chicago's burned district had been almost completely rebuilt through private initiative.

Besides calling into question the need for major government assistance following disasters, the aftermath of the Chicago Fire offers a case study in how to help the needy. One-third of the city's 300,000 residents lost their homes and were in immediate need of basic necessities. Many also lost their places of employment. The task of meeting life-or-death needs and of finding employment for

victims fell largely to one charity, the Chicago Relief and Aid Society. How it responded is a very interesting story.

The Fire

Two physical conditions set the stage for the Chicago Fire. First, the summer of 1871 had been exceptionally dry. Second, of the city's 60,000 barns, stables, warehouses, homes, stores, and other buildings, an estimated two-thirds were built entirely of wood. Many also contained combustible materials such as firewood, lumber, hay, grain, coal, and oil. In addition, there were wooden fences, sidewalks, bridges, and 55 miles of streets paved with pine blocks. As one author relates, "The entire city, to exaggerate only slightly, was a huge potential bonfire waiting to be lit."¹

On the evening of October 8, a fire began on the city's south side in a barn owned by Patrick and Catherine O'Leary. The well-known but dubious tale is that Mrs. O'Leary was milking a cow, which kicked over a lantern. While the fire no doubt started in the O'Leary barn, it was more likely the result of spontaneous combustion of hay or a carelessly tossed cigar. In any case, it quickly grew into a huge wall of flame that was propelled northward by strong winds. The fire burned for nearly 24 hours, cutting a path four miles long and three-quarters of a mile wide through what is today the Loop and the area surrounding the Magnificent Mile. Nearly

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everything in its path was consumed. Wrote an observer as the flames were finally extinguished by long-overdue rain, "The fire here last night and to-day has destroyed almost all that was very valuable in this city. There is not a business house, bank, or hotel left. Most of the best part of the city is gone."² At least 200 Chicagoans lost their lives, and the city suffered \$200 million in property damage—about a third of its valuation.

Government's Limited Role

The role of the government immediately following the fire was largely limited to keeping order. Martial law was not officially declared, but it was imposed *de facto*, enforced by army troops, the police, and specially enlisted volunteers. Mayor Roswell B. Mason also issued executive orders that established the price of bread, banned smoking, limited saloon hours, and prohibited wagon drivers from charging more than their usual rate. Mason appointed Lieutenant-General Philip Sheridan, the Civil War hero, to command the Division of the Missouri in patrolling the streets, guarding relief supplies, and enforcing curfews. Four companies of infantry were also stationed just outside the city for several months. But after only two weeks, Mason discharged Sheridan's troops on the grounds that they were no longer needed.

Mason also asked the Chicago Relief and Aid Society, the city's largest charity, to direct the relief effort. Other charities, such as the German Relief Society, played a small role in providing relief, but the Chicago Relief and Aid Society took charge of the vast majority of funds and supplies that began to arrive from around the country. On October 13, the mayor issued a proclamation reading, "I have deemed it best for the interest of the city to turn over to the Chicago Relief and Aid Society all contributions for the suffering people of this city. This Society is an incorporated and old established organization, having possessed for many years the entire confidence of our community, and is familiar with the work to be done."

Founded in 1857, the Chicago Relief and



Merchant and philanthropist Marshall Field (1834–1906) was one of the members of the board of the Chicago Relief and Aid Society.

Aid Society was a "charity organization society," a type of charity common in the latter half of the nineteenth and early twentieth centuries. It was part of a broader charity organization movement that arose in response to growing concerns that indiscriminate charity fostered dependency and undermined self-reliance. As charity expert James L. Payne explains, "Reformers saw that the needy could make a permanent living by going from house to house and from charity group to charity group, telling tales of woe. To stop this practice, they formed central clearinghouses in each city to which they referred each case of neediness; from there, each case was assigned to a particular church group or friendly visitor."³

Charity organization societies practiced what they called "scientific charity." They distributed application forms to those seeking aid, required references who could verify an applicant's neediness, and kept detailed records on all who received help. One key feature was their use of family histories and interviews with neighbors and relatives to determine if applicants were "worthy" of aid. By 1912, there were charity organization societies in 154 American cities.

The Chicago Relief and Aid Society's immediate task was to feed the hungry and shelter the homeless before the onset of winter. It divided the city into several districts and opened relief supply offices and depots connected by telegraph. It also separated its work into several divisions, including contributions, distributions, employment, health, reception and correspondence (to receive out-of-town visitors and answer letters and telegraphs), shelter, special relief (discussed below), and transportation. A committee of prominent Chicagoans oversaw each division.⁴

On October 16, a week after the fire, the Society opened a temporary headquarters in the heart of the burned district. Documents show that the Society was acutely concerned that some recipients might try to take advantage of "the generous aid pouring in." An early relief plan issued by Society president Henry W. King called on "all persons engaged in [relief] work to stop hasty distributions, and give applications as much examination as possible." O. C. Gibbs, general superintendent of Distribution of Supplies, issued an October 24 circular that read, "In all cases of applicants moving into your district from another, you will before giving relief, ascertain, by inquiry at the office of the district from which they came, if they had been aided in that district, and to what extent." Another early notice by Society chairman E. C. Larned instructed, "All applications should be made in writing, and should state specifically the place of residence before and since the fire, the nature and extent of the losses suffered, and the particular articles or form of aid desired. . . . Relief by payment of money is only extended in a few exceptional cases."

The Primary Task

The Society saw its most important task as arranging work for victims of the fire so that they would not become accustomed to charity. There was obviously ample work to do, including clearing away rubble and collecting salvageable bricks and other building materials. The Society's Employment Bureau sought "at the earliest possible period, to obtain sup-

port [that is, work], and relieve [victims] from the necessity of any further application for assistance."

On October 24, two weeks after the fire, Gibbs issued a circular to all Society personnel. After pointing out that work was available to nearly everyone, including boys, it stated: "Give no aid to any families who are capable of earning their own support, if fully employed (except it be to supply some needed articles of clothing, bedding, or furniture which their earnings will not enable them to procure, and at the same time meet their ordinary expenses of food and fuel.)" Neither was aid to be extended to anyone "possessed of property, either personal or real, from which they might, by reasonable exertions, procure the means to supply their wants, nor to those who have friends able to help them." The circular insisted that "Our aid must be held sacred for the aged, infirm, widows and orphans, and to supply to families those actual necessities of life, which, with the best exertions on their part, they are unable to procure by their labor." Sternly it concluded: "Any failure on the part of any employee of the Society to conform to the instructions given above will be regarded as sufficient cause for his instant dismissal."

An October 27 notice from Gibbs is also worth quoting:

There are several thousand men and boys working this week whose families we are feeding, who will be paid for their work on Saturday night, sufficient to meet all the wants of the family for food next week. Be sure that every such family is known in your District, and reported at the office, so that no more supplies be given to it. Our supplies are going at a fearful rate. If any men, boys or women are not working, apply St. Paul's Rule: If any man among you will not work, neither let him eat.

More Inducements to Work

The Society's Special Relief Committee provided materials to help those in trades return to work. It helped to outfit dentists' and doctors' offices, stock dry-goods stores, and

pay the first month's rent for new business establishments. It also assisted bookbinders, carpenters, locksmiths, masons, shoemakers, tailors, and tinnerns. Almost a quarter of the Committee's funds—\$140,000—was used to buy 5,300 sewing machines for destitute sewing women. Sewing machine companies offered a discount on new machines, and applicants themselves paid part of the cost when possible. The Society also opened its own clothing factory, employing 100 women, to replace garments lost in the fire.

The Committee also sought to discreetly help well-to-do victims of the fire who would be hesitant to seek help. As one letter from a father to his son related, "Do not say anything about it to Dyer, but we hear that his sister Mrs. Loving has actually been to the 'Relief' for clothing. However, a good many other ladies as respectable as she have done the same thing. I fear that in some cases, respectable people have gone for aid who ought to wait a little while for their friends to come forward; but some folks seem to give way to despair almost immediately."⁵

The Society also gave 30,000 people materials to build temporary one-room shanties and supplied materials for another 5,000 larger shelter houses. It erected barracks at five locations in the burned district to house 1,000 poor, homeless families and also administered 64,000 smallpox vaccinations.

The Society received some criticism for its arguably bureaucratic way of administering aid, which appears to have delayed assistance in some cases and resulted in a failure to help some truly needy people. But most observers judged its work as outstanding. Frederick Law Olmsted wrote in *The Nation*, "In the midst of the most pressing demands of their private affairs, men of great good sense and well informed have taken time to devise and bring others into a comprehensive and sufficient organization, acting under well-guarded law." The Society's work is particularly impressive considering that it had to expand quickly from an organization that had served 7,000 annually before the fire to one that helped 157,000—about half the population of Chicago—during the year and a half it provided fire relief.

Moreover, there is no doubt that the Soci-

ety's meticulous record-keeping and careful investigation of applicants helped it to detect fraud. Documents relate one story about a woman named Kate Moran who applied to the Shelter Committee for materials to build a house. A reference named John Kenedy [sic] supplied a letter saying that Moran had permission to build on his lot and that she was "a Destitute and Severer Suffer[er] By the Late Disastrous Fire and has A Large Family & yong [sic] children None of them Able to Help them Selves." On investigation, a Society visitor found that Moran already owned a home and that the application was "a perfect fraud. Has been living here 5 years. A hard drinking woman. Never lost a cent. Owns house here & has been drunk nearly all the time. Would give her nothing."

Lessons

The story of the Chicago Fire relief effort raises at least three points worth pondering. First, it calls into question how we help the needy today, both through welfare and charity. Although many victims of the fire lost their possessions and means of livelihood and were reduced to paupers, relief workers were extremely wary about providing them with material goods. Instead, they helped victims find work so that they would not become dependent on charity. That model can be contrasted with what appears to be a fairly common mindset among charity workers today: that "helping" means "giving" people things. As one example, a spokeswoman at a food charity recently remarked that no one at her agency had stopped to count the number of people coming through the door because "we're just trying to get the food out the door."⁶ But if a charity fails to collect even the most basic information on those it serves, how can it know if it is encouraging self-reliance or dependency? How can it tell if it is serving the genuinely needy or only those who take advantage of others' generosity?

Second, the Chicago fire relief effort challenges those who contend that private charity is insufficient to cope with disasters and that strong government action is necessary. Even before the fire was fully extinguished, the cit-

izens of Cincinnati held a rally that raised \$160,000 for fire victims. Citizens in dozens of other cities around the country did likewise. In New York City, wagons went through the streets to collect clothing. Money raised for the relief effort totaled \$4.8 million, including nearly \$1 million from 29 foreign countries. Much more was donated in goods such as clothing and food. This pattern of generosity has been typical of all major disasters in U.S. history.

By contrast, the Federal Emergency Management Agency (FEMA), established by the Carter administration in 1979, and other federal agencies now cover an estimated one-third of the cost of recovery from a typical disaster. Federal and state agencies have increasingly supplanted the role of private insurance and relief organizations by providing cash grants and low-interest loans to homeowners, renters, and businesses affected by every conceivable type of disaster or hardship: severe storms, tornadoes, snow, ice, flooding, ground saturation, and mudslides. Government assistance is available to cover home repairs, temporary housing, employment income lost as a result of a disaster, medical, dental, and crisis-counseling bills, and many other disaster-related expenses.

Moreover, FEMA exhibits the expansionist tendencies typical of other government agencies. It has increasingly exaggerated the number of major disasters during its 20-year history. In 1983 it declared 20 major disasters. By 1996, the number had risen to 75, and it has remained roughly three times higher than during FEMA's early years. (While the president officially declares disasters, the decision is based largely on advice given by FEMA and other federal and state agencies.) White House assistants have reportedly called governors to prod them into making requests for federal disaster aid; under federal law gov-

ernors must formally request aid from the president. FEMA has even reimbursed cities for the cost of ordinary winter snow removal.⁷

Finally, we should question whether taxpayer-funded disaster relief discourages Americans from voluntarily contributing to relief efforts. After all, if our taxes increasingly cover the cost of disasters, why make a voluntary contribution? Fortunately, the United States still has many private relief organizations, and Americans continue to respond generously to disasters. In 1997, the American Red Cross, America's largest disaster relief organization and fourth largest nonprofit organization, received only 4 percent of its \$1.9-billion revenue from the government. It responds to hurricanes, floods, earthquakes, tornadoes, hazardous materials spills, transportation accidents, explosions, and other natural and man-made disasters, including house and apartment fires. In the last five years, it has responded to an average of 64,800 disasters and tragedies annually, mostly house fires, and all relief is provided free of charge. But if government agencies such as FEMA continue to expand their role, will future generations of Americans feel any obligation to voluntarily help victims of disasters? ☐

1. Robert Cromie, *A Short History of Chicago* (San Francisco: Lexikos, 1984), p. 81.

2. W. W. Belknap, secretary of war, to Philip H. Sheridan, lieutenant-general, U.S. Army; Chicago Historical Society, www.chicagohs.org/fire. All subsequent quotes that are not end-noted are taken from this source.

3. James L. Payne, *Overcoming Welfare: Expecting More from the Poor and from Ourselves* (New York: Basic Books, 1998), p. 48. See also Marvin Olasky, *The Tragedy of American Compassion* (Washington, D.C.: Regnery, 1992).

4. On the Society's board sat merchant Marshall Field, sleeping-car manufacturer George Pullman (who served as treasurer), and attorney Wirt Dexter.

5. Ellis Chesbrough, Chicago Historical Society.

6. Fran Griffith, Food Bank of Delaware, quoted in "Feeding a Growing Need," *Chronicle of Philanthropy*, August 7, 1997, p. 27.

7. James Bovard, "The FEMA Snow Job," Cato Institute op-ed, February 19, 1997; J. Taylor Buckley, "Aid and Insurance Help, But the Victims Pay a Lot," *USA Today*, September 6, 1996; and Barbara J. Saffir, "FEMA Sets Criteria for Disaster Relief," *Washington Times*, April 2, 1999.

Orissa's Man-Made Tragedy

by Barun S. Mitra

NEW DELHI—Twelve days after a super cyclone hit the state of Orissa, India is still grappling with the enormity of the tragedy. Over 10,000 people are feared dead, and millions of hectares of cropland damaged. Meanwhile, in Vietnam a massive flood has been causing more misery. Reading these headlines of massive casualties, it seems natural to ask the question: Does nature discriminate against poorer people and countries?

The answer is no, but there's a reason it seems that way. Even a cursory analysis of various natural disasters, whether floods, earthquakes or hurricanes, shows that economically developed countries are better able to withstand these same calamities and so suffer fewer casualties (although the dollar value of property damage is higher, as one would expect). This is in sharp contrast to the fate of people in developing countries, where the cost in terms of human life is enormous.

The obvious explanation—that citizens of developed countries have greater resources to protect themselves—is correct as far as it goes, but the problem goes deeper than that. Governments of many developing countries make fundamental mistakes in protecting and bettering the lives of their citizens. They pursue statist policies that hamper economic development and perpetuate poverty, and they

also misuse the power concentrated in the hands of the bureaucracy.

The events leading up to the Orissa cyclone clearly show this. While the storm was a natural calamity, the tragedy itself was the handiwork of man. Economic development can substantially lower the danger of living close to nature. In India, this lack of development is the result of 50 years of state control over the economy. Orissa is rich in natural resources, but its people are among the poorest in the world. Central and state government policies have ensured that much of these resources are underutilized. As a result, there is little funding available to cope with calamities like the cyclone.

Controlled Communications

The major reason is that there was inadequate warning. The problem is partly the Indian government's tight control over all kinds of communications, from telecoms to broadcasting. As a result, the infrastructure is totally inadequate, and before the cyclone hit little warning was given to people to take precautions. Instead of a wide range of media, from local radio and television to telephone, continuously informing the people of the impending disaster, for many the storm came as a surprise. Many coastal fishermen ventured out to sea to face the full brunt of the storm, never to return.

This is unforgivable, since for over two days meteorologists in India and around the world were tracking the storm and warning

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about its impact. But nothing was done to utilize even this basic information. It is not enough to lay the blame at the door of the bureaucracy for their callousness and indifference. It is not enough to blame the politicians who now swarm the disaster area trying to score political points.

If we Indians are really moved to action by this massive human tragedy, we must reconsider the institutional arrangements and the incentive structures of the present system and compare them with possible alternatives. For instance, a private and widespread network of communication channels would have ensured not only better flow of information before the storm, but also greatly increased the chances of some of these channels surviving the storm and therefore readily assess the damage and direct relief measures immediately.

In many parts of the world, weather forecasting is an attractive business proposition. Linked with the insurance sector, it is the most efficient tool for dissemination of such information to rural communities and fishermen. In a competitive marketplace, there would be a premium on the quality of such information. And the incentive structure would be such that it would make business sense to provide advance information about such an event, to ensure that adequate precautions are taken to minimize the loss, and to institute relief and rebuilding process at the earliest.

None of these exists today. In the present political and administrative environment, the only incentive is to extract political mileage out of human tragedy. It is no coincidence that we make a huge fuss about allowing 26 percent foreign equity in insurance, while barely 5 percent of the population is under any kind of cover, and neglect the interests of one billion people to protect the 250,000 public-sector insurance employees. Insurance and self-help organizations are one of the best tools capable of dealing with such events

more effectively, motivated not so much out of charity but by self-interest. By taking over the insurance sector, the state has deprived the people of one of the most effective instruments, and left them open to face the forces of nature without any protection.

Indians talk of encouraging information technology, telecommunications, and broadcasting. But in practice the government stifles new technological advances in cable TV, DTH broadcasting, and cellular and satellite telephony that may help improve the condition of our own people by providing them access to information. With just 15 million telephones and 50 million televisions, and less than one million personal computers, it's clear the country will never enter the information age if this sector is left under state control.

Latest Manifestation

The tragedy of Orissa is the latest manifestation of the ills affecting our institutions. We need rapid and massive reforms—political, economic, judicial and administrative—to have any chance of breaking free of poverty. Rather than looking up to the state for doling out relief, we must squarely hold it responsible for creating the environment that made people so helpless in the face of such natural fury. We must get the state out of the people's hair, and let the enterprising spirits of the people a free rein, and allow them to harness the potential of the marketplace, especially in information and insurance.

Richer is safer—economically and environmentally. The richer the people, the greater their ability to choose, and the wider the range of choices in the marketplace. The people in developing countries pay with their life when government takes on the responsibility of deciding for them. This is the lesson that we must draw from the tragedy of Orissa. It may not be possible to avoid natural calamities, but it is possible to minimize the losses. □



A Camera Reaches 100

This month marks a centennial anniversary that deserves to be noted. It was 100 years ago, in February 1900, that George Eastman first introduced the Kodak Brownie box camera. The price tag was one dollar; film sold for 15 cents a roll. Eastman was about to do for cameras what Steven Jobs would do for computers almost eight decades later. For the first time, taking pictures was within the reach of almost every American family.

Whether you're a camera buff or not, you probably have seen and perhaps have even used a Brownie. Nowadays, they show up at rummage sales and antique shows, but I can remember when they were still widely used in my childhood days during the 1950s. They were simple to operate and took great pictures.

The Brownie not only ushered in the era of modern photography; it was also a genuine cultural phenomenon in America. Millions were sold. Thousands of American youngsters signed up as members of The Brownie Camera Club and entered Kodak photo contests. Men and women who went on to become famous photographers got their start with Eastman's little invention.

Student of Photography

The man who gave us the Brownie camera was no stranger to photography in 1900. In

the 1870s, when Eastman was in his twenties and picture-taking wasn't much older, what would become the passion of his life started out as a hobby. In 1871 at the age of 17, he bought almost a hundred dollars' worth of photographic equipment and hired a photographer to instruct him in the art. He read everything he could find on the subject and with a backpack and a wheelbarrow, he hauled his equipment everywhere he wanted to capture an image.

Cameras in the 1870s were as big as microwave ovens. The tools of the professional photographer's trade—including a bulky, unreliable camera, a tripod, and various liquid chemicals—were more than a single man could carry, "a pack-horse load," as Eastman described it. He resolved to downsize, simplify, and reduce the cost of the "burden" of taking pictures.

Though he lived his entire life in the area where he was born—upstate New York—Eastman traveled widely. He once visited Michigan's Mackinac Island, where he set up his camera equipment to take photos of the natural bridge, a stone landmark. A crowd of gawking tourists gathered, assuming Eastman would take their pictures and offer the photos for sale. When he informed them he was making pictures for his own purposes and not for sale, a disappointed tourist chewed him out: "Then why did you let us stand in the hot sun for a full half-hour while you fooled around with your contraptions! You ought to wear a sign saying that you are an amateur!"

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Eastman experimented endlessly and discovered new techniques and processes for producing better film and lighter, less expensive cameras. A self-taught chemist, he ended the era of sloppy, wet-plate photography by inventing a process that used dry chemicals, though not without many disappointments. His Eastman Dry Plate Company almost went bankrupt in the 1880s, in spite of his hard work and sleepless nights. But in America's golden age of invention, when taxes were low and rewards for persistence were often great, this genius who had dropped out of school at the age of 13 went on to build an extraordinarily successful business.

Praise from the Pros

Professional photographers praised the pioneering work of Eastman. They called his prints and negatives "the best dry plate work on the market." Journals and newspapers began publishing articles about his inventions. In 1929, when Eastman met Thomas Edison for the first time, each of the elderly men revealed they had purchased a product made by the other as early as the 1880s. "Pretty good film," Edison told Eastman.

By 1888, Eastman had simplified the camera into a small, easily held box measuring three and three-quarter inches high, three and a quarter inches wide, and six and a half inches long. He needed a name for it, a catchy trademark that could be easily pronounced and spelled. "K" was his favorite letter because, he said, it was "a strong, incisive sort of letter." After toying with various combinations of letters, he hit on one that rang some sort of internal bell in his mind, "Kodak." But the first Kodak camera, priced at \$25 when it debuted in 1888, was still unaffordable for most Americans.

Eastman and his team of expert craftsmen

worked feverishly to cut costs and improve quality. The result was a camera that would reach people, in Eastman's words, "the same way the bicycle has reached them"—the Kodak Brownie. It took the world by storm. The first run of 5,000 cameras flew off the shelves and orders piled up at an amazing pace that exceeded the most optimistic projections. Even corner drugstores were selling them.

A new term was coined during a 1905 trial to describe the millions of people caught up in the craze: "Kodak freaks." In her biography of George Eastman, Elizabeth Bayer quotes the court transcript, which read, "Wherever they go, and whomever they see, and whatever place they have come to, they have got to have a Kodak along for the purpose of getting pictures." In 1904, reports Bayer, when the Dalai Lama fled from his Tibetan palace, he took his Brownie with him.

Eastman inspired great loyalty among his employees, in large measure because of what biographer Bayer notes were "his countless acts of kindness, his enlightened personnel policies, and his tireless working habits." He was an American original—a self-made man whose dreams and commitment have made the everyday lives of generations of people happier by allowing moments of those lives to be captured on film.

The estimated 70 billion pictures Americans alone will take this year are the direct descendants of the Kodak Brownie, the first mass-produced camera in history. Its creator was a superb businessman as well as a talented inventor, and became one of America's wealthiest citizens. He gave away more than \$100 million to universities and charities before his death in 1932.

If, as the saying goes, one picture is worth a thousand words, then the story of George Eastman and the Kodak Brownie is worth 70 trillion words. □



Entrepreneurial Discovery and the Law of Supply and Demand

by Israel M. Kirzner

Last month we promised to explain how Austrian economics presents its understanding of the law of supply and demand by invoking the *entrepreneurial* character of dynamically competitive markets. The key element in this Austrian understanding is the appreciation that individual buying and selling decisions are examples of what Ludwig von Mises called *human action*. For Mises, each human being is, in a very important sense, an entrepreneur. (See Ludwig von Mises, *Human Action*, 3rd edition, 1966, p. 252.) And it is the entrepreneurial element in those decisions that is responsible, in the Austrian view, for that crucially important tendency toward market-clearing that (for Austrians as well as for non-Austrians) constitutes the heart of the law of supply and demand.

The Meaning of Human Action

The Misesian notion of *human action* is significantly richer than the mainstream-economics notion of the *economizing decision*. An economizing decision is seen as the selection of the most desirable option out of an array of given alternatives with a given ranking of what is more desirable and less desirable. Since both the alternatives available and the ranking are already identified prior to

the act of decision, such decision-making consists essentially of the solution to a mathematical maximization exercise; the outcome is predetermined: it is implicit in the given context within which the decision is to be made.

For Misesian human action, on the other hand, the action is, most importantly, seen as *including* the determination of both what the available alternatives are and what ranking of relative desirability is to be adopted. Determining these elements inevitably exposes the agent to the uncertainties of an open-ended future (in a sense absent in the context of the standard “economizing decision”): action is the present choice between future alternatives that must, in the face of the foggy uncertainty of the future, now be *identified* in the very act of choice. It is this aspect of human action that renders it, for Mises, essentially entrepreneurial. Mathematical expertise in solving maximization problems is of very limited help in choosing among courses of action when the very alternatives must be “created,” as it were, by the agent’s entrepreneurial imagination and creativity, by his daring and boldness.

The Entrepreneurial Role

For Austrian economics the entrepreneurial role is, despite—or more accurately, precisely because of—its analytical “fuzziness,” responsible for the systematic character of market processes (“fuzzy” since no economist

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can “model” the creative imagination of the entrepreneur acting under open-ended uncertainty). Going beyond the context of the entrepreneurial elements in each individual human action, Austrian economics focuses on the role of the businessman-entrepreneur in the dynamic market process. The successful businessman-entrepreneur “sees” what other market participants have not yet seen; the entrepreneur sees opportunities to buy at one price and to sell at a higher price. To see such opportunities will typically call for (a) superior imagination and vision (since the perceived opportunity to sell at the higher price is likely to exist only in the future) and (b) *creativity* (since such a profit opportunity is likely to take the form of selling what one buys in an innovatively different form, and/or different place, than was relevant at the time of purchase).

It is because Mises saw each human being as, to some extent, an entrepreneur that he understood the powerful tendencies that exist in free markets for profit opportunities to be sensed and exploited (and thus eliminated) by profit-oriented entrepreneurial market participants. In a dynamically changing world, new profit opportunities are continually emerging, and their emergence continually generates the incentives toward their discovery and exploitation. It is this ceaseless re-creation and discovery of entrepreneurial opportunities that make up the market process we observe in the world around us.

The Law of Supply and Demand Reconsidered

For Austrians, the law of supply and demand is simply an insight into one particular (but central) element in this more comprehensive, dynamic, entrepreneur-driven market process. For any particular commodity, the market forces acting on the prices at which it will be bought and sold (and thus the market forces acting on the decisions made to produce and to buy it) tend to identify and exploit the opportunities (structured by the technology and the economics of its production on the one hand, and by the urgency with which

potential consumers wish to consume it, on the other hand) and thus to ensure that the quantities which are simultaneously worthwhile for producers to produce and for consumers to buy will in fact tend to be produced, offered for sale, and purchased.

If, for example, current production of this commodity is “too low,” this means that opportunities exist for additional units to be produced at an outlay below the highest price potential consumers would be prepared to pay; it is “worthwhile” to produce these additional units. Entrepreneurial producers will tend to discover and act on such opportunities. If, on the other hand, current production is “too high,” this means that the production outlay for at least some units exceeds the highest price potential consumers are prepared to pay for them; these units were produced as a result of entrepreneurial error. Entrepreneurial producers will tend to discover these (marginal) losses and cut back on production.

The entrepreneurial forces acting on the market for any one commodity are thus continually pushing that market toward the market-clearing point—that is, to where (a) the quantity produced is such that (only) all units “worth producing” are indeed produced, and (b) the market price for this commodity is just high enough to make it, as a practical matter, worthwhile for producers to produce this quantity, and is just low enough to make it worthwhile for consumers to buy it.

Clearly, these forces would, were all other dynamic changes in market conditions to be suspended, tend to achieve exactly those outcomes identified, in more conventional mainstream formulations of the law of supply and demand, by the intersection of the supply curve and the demand curve. It is for this reason that we have described Austrian economics as basically in agreement with mainstream economics in its emphasis on the centrality of the law of supply and demand. It is worthwhile, however, briefly to ponder the sense in which the Austrian version of the “law” avoids reliance on any presumption of universal perfect market knowledge (a presumption that, as seen in the preceding article, pervades much standard economics).

The Role of Ignorance and Learning in the Entrepreneurial Market Process

As Austrian economist F. A. Hayek emphasized, the market process we have been describing in entrepreneurial terms can also usefully be understood in terms of *learning*. The process through which the market tends to generate the “right” quantity of a commodity, and the “right” price for it, can be seen as a series of steps during which market participants gradually tend to discover the gaps or errors in the information on which they had previously been basing their erroneous production and/or buying decisions. Buyers who had overestimated the willingness of producers to produce and sell the commodity had been “incorrectly” refusing to offer higher prices (that they would indeed have been prepared to pay); those who had underestimated that willingness were “incorrectly” offering higher prices than were in fact needed to inspire sellers to produce. Sellers who had overestimated the willingness of buyers to buy were “incorrectly” asking higher prices (and were producing more units of the commodity than it was “really worthwhile” to produce), and so on. The market process is one in which, driven by the entrepreneurial sense for grasping at pure profit opportunities (and for avoiding entrepreneurial losses), market par-

ticipants, learning more accurate assessments of the attitudes of other market participants, tend toward the market-clearing price-quantity combination.

Two concluding observations are in place at this point. First, we should emphasize, once again, that this “law” is simply an element in the more general dynamic, entrepreneurial market process that is continually at work not only (as in the narrowly defined law of supply and demand) within a particular industry, but also between industries. It is this that renders understanding of the law so important for the broader and deeper understanding of the role of free markets generally in achieving socially effective economic outcomes.

Second, we should emphasize the extent to which the law of supply and demand is being continually buffeted and interrupted—and continually re-asserted and re-created—in the real world of dynamic change. (The circumstance that these dynamic changes typically take the form of forces acting on a particular commodity market from *other* commodity markets reinforces the observation made in the preceding paragraph.)

Next month we will again explore the dynamic entrepreneurial free-market process with particular concern for the nature of and role for *competition* in this process, and for the implications in regard to antitrust policy. □

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Government as Slave Owner

by James Bovard

The Declaration of Independence proclaimed that “all men . . . are endowed by their Creator with certain inalienable rights.” This assertion captured the idealism and the principles of this nation’s Founding Fathers.

Unfortunately, the notion of the citizen’s inviolable right to liberty is vanishing from the American political landscape. Attorney General Janet Reno, in a 1995 speech vindicating federal actions at Waco, informed a group of federal law enforcement officers: “You are part of a government that has given its people more freedom . . . than any other government in the history of the world.” Contemporary politicians and political scientists have greatly improved on Thomas Jefferson. Progressive thinking about government is exemplified in a new book titled *The Cost of Rights: Why Liberty Depends on Taxation* (Norton, 1999), by Princeton University professor Stephen Holmes and University of Chicago law professor Cass Sunstein.

Holmes and Sunstein perform dazzling intellectual gymnastics that leave common sense in the dust. They begin by asserting that “the individual rights of Americans, including the right to private property, are generally funded by taxes, not by fees. This all-important funding formula signals that, under American law, individual rights are

public not private goods.” Thus, it is completely up to the current government what rights—if any—today’s citizens will have.

The American Revolution was fought in large part because colonists believed the British government was violating their pre-existing rights. However, Holmes and Sunstein reveal that “rights are rooted in the most shifting of all political soils, that of the annual budgetary process, a process thick with ad hoc political compromises.” All rights are mysteriously created somewhere in the congressional appropriation process—somewhere between the first draft of a legislative bill on an intern’s laptop and the notes a lobbyist slips to a congressman while wheeling and dealing on the final version.

Holmes and Sunstein spare no effort to stomp out any notion of inviolable rights. They say, “It is more realistic and more productive to define rights as . . . selective investments of scarce collective resources, made to achieve common aims and to resolve what are generally perceived to be urgent common problems.” The authors also define rights as “welfare-enhancing investments, extracted by society for society’s purposes” and assert that “all legal rights are, or aspire to be, welfare rights.”

Thus when the Founding Fathers proclaimed in the Bill of Rights that “Congress shall make no law . . . abridging the freedom of speech, or of the press” it was no different from contemporary congressmen’s voting for food stamps.

James Bovard is the author of Freedom in Chains: The Rise of the State & the Demise of the Citizen (St. Martin’s Press, 1999).

Freedom through Intervention

Holmes and Sunstein work overtime to attribute every freedom to government intervention, asserting that “Religious liberty is certainly no more costless than other legal rights. American citizens are more or less free to worship or not, as they wish, but their freedom in this respect makes a claim upon the public fisc, even when it is not subsidized out of public budgets (through, for example, police and fire protection of churches and other religious institutions).” If a single drop of government money could conceivably be involved in some activity, the entire activity becomes the equivalent of a government handout. And regardless of how much in taxes a person pays, if he receives any benefit at all from any government activity, he becomes the moral equivalent of a public-housing resident who never worked a day in his life.

In perhaps the book’s most creative passage, Holmes and Sunstein reveal that “Our freedom from government interference is no less budget-dependent than our entitlement to public assistance. Both freedoms must be interpreted. Both are implemented by public officials who, drawing on the public purse, have a good deal of discretion in construing and protecting them.” The fact that you can see the words on this page clearly is only because some police supervisor deterred a traffic cop from whacking you in the head with his billy club this morning. The Bill of Rights was created as a bulwark to defend citizens against government. Yet because government lawyers must occasionally interpret its clauses (usually to subvert plain meaning), any citizen not boar hogged by government officials miraculously becomes a government dependent.

Holmes and Sunstein reveal that “rights depend in practice on the going rate of taxation.” Thus the higher the tax rates, the more rights people have. Unless citizens live under the heel of the tax collector, they cannot hope to have any freedom. The Internal Revenue Service is never mentioned in the book. Instead, taxation is portrayed practically as an abstraction, as something that just happens

and automatically fills up government coffers with rights fodder.

“A tax deduction is a form of public subsidy,” write Holmes and Sunstein. But to believe this is to assume that politicians are entitled to 100 percent of everyone’s income. If politicians set the tax rate at 99 percent, and allow people a tax deduction for food and clothing, then everyone’s budget supposedly becomes a government handout.

The so-called tax burden is an illusion because whatever title anyone has to own something came originally from government. In an earlier book, Sunstein stressed that “a system of private property is a construct of the state” and “governmental rules are implicated in, indeed constitute, the distribution of wealth and entitlement in the first instance.” Thus government can presumably revoke the rights to any property without violating the rights of the purported owner. This presumes that government is the equivalent of some pagan Earth Mother from whom all things come—and who thus has a right to take all things back.

The only way to justify treating tax burdens as morally irrelevant is to assume that government owns all the labor of all the citizens in society. Taxes are not an imposition but merely government reclaiming its rightful property. But did the government bequeath the sweat of the brow of the carpenter who built a house that he sold, or the muscle by which a laborer dug a ditch, or the idea that the software writer used to revolutionize computer use around the world, or the courage of a businessman who staked his life savings on a new product that made life easier for millions? An edifice of freedom cannot be built on a foundation of slave ethics.

Holmes and Sunstein argue in effect that because politicians help set the rules for economic markets, they somehow become entitled to what anyone produces. This makes as much sense as saying that federal patent clerks deserve all the rewards for new inventions, since they approve and register new patents, or that a bank security guard is entitled to carry home armfuls of money from the vaults he guards.

Citizens at Fault

Every failure of government is somehow the citizens' fault. Sunstein notes that "The Fourth Amendment right [against unreasonable government searches and seizures] cannot be absolute unless the public is willing to invest the enormous amounts necessary to ensure that it is seldom violated in practice. The fact that the Fourth Amendment is violated so regularly shows that the public is not willing to make that investment." Thus the only reason that police routinely carry out unconstitutional searches is that taxes are not high enough.

The one part of the Bill of Rights that Holmes and Sunstein strictly avoid mentioning is the Second Amendment, which guarantees citizens the right to keep and bear arms. The Founding Fathers saw widespread private gun ownership as a necessary check against the threat of tyranny. Even Harvard law professor and "progressive" icon Laurence Tribe recently admitted that "It becomes impossible to deny that some right to bear arms is among the rights of American citizens." Presumably the authors believe that people must pay taxes so that government can confiscate everyone's guns.

Holmes and Sunstein see government as the alpha and omega of all rights, all liberties, all existence: they cannot conceive of anything happening that was not first ordained by politicians and inflicted by bureaucrats. They declare that "To take the cost of rights into account is therefore to think something like a government procurement officer, asking how to allocate limited resources intelligently while keeping a wide array of public goods in mind." Neither Sunstein nor Holmes has spent time around the General Services Administration headquarters, where real procurement officers waste billions every day.

The authors never attempt to explain where or how government got all the rights. Supposedly, government officials have them because government spends the money to protect them. But the money government spends was first earned by private citizens. How can citizens acquire rights only by government's taking away much of their paychecks in order to

protect the remainder of their income and their other rights? If rights are the result of the government budget, then the rights must originate with the person who produced the money, not with the government agents who seized it. The adulation of government turns into a tautology: in the final realm, government is the source of all rights merely because it has the power to fleece and subjugate its citizens.

Portraying all rights as dispensations of government is a scam to convey absolute power to government officials. Since rights are solely the creation of government, any limitation on government power supposedly becomes a threat to rights.

Americans endorsed the creation of the federal government over 200 years ago so that it could fulfill a handful of narrowly prescribed functions. Government was intended to be a hired clerk, not a divine master. Each person has a natural right not to be made a government pawn, a right to sovereignty over his own body, his own life, and his own peaceful actions. As Etienne de la Boétie, a sixteenth-century French thinker, observed, "It is fruitless to argue whether or not liberty is natural, since none can be held in slavery without being wronged."

Americans must choose between "government-issue liberty" and "self-reliant liberty." The choice is between a concept of freedom based on government handouts and a concept of freedom based on restraint of government, between a liberty in which people are perpetually treated as children needing to be restrained and a liberty in which they are allowed to experiment, take chances, and pay for their own bloody noses. It is a choice between a freedom in which each person can make his own mistakes or a freedom in which each person becomes another statistic in the government's mistakes. The choice between the two freedoms comes down to a question of whether people will benefit more from being left alone to build their own lives or from somebody's confiscating much of their building material and imposing the structure he thinks best. A good definition of liberty must provide a barricade that 10,000 enforcement agents can't breach. □

What Ain't Broke: The Renewed Call for Conscription



The draft has been dead for more than a quarter century. Despite a rocky start, the All-Volunteer Force (AVF) now provides America with the highest quality military in its history and the finest armed services in the world. Yet recruiting and retention problems have begun to appear. As a result, there are an increasing number of calls for a return to conscription.

The draft was bad policy during the Cold War. It would constitute amazing foolishness today. Renewed conscription would simultaneously reduce the quality of new servicemen and increase the cost of raising a military. A draft would also sacrifice the very constitutional liberties that the military is charged to defend.

Congress adopted the first peacetime draft in 1940, when war was raging in Europe. Conscription persisted—with but a brief 15-month hiatus—until 1973.

Now, however, a growing chorus on behalf of conscription is being heard.

Memo to Washington: We're at Peace

That Washington is even discussing a return to a draft is bizarre. The United States is at peace. Washington stands astride the globe as a colossus—its enemies are pathetic and its

allies are secure. Together with its allies, America accounts for roughly 80 percent of the globe's military outlays. Allied states like France are abandoning conscription.

Still, advocates of conscription point, among other things, to poor recruiting results. In 1999 every service aside from the Marines had a difficult time. Moreover, the services are losing pilots and other selected skill grades, such as computer technicians. Critics also lament the expense of recruiting new soldiers.

Yet the military's problem is not inadequate recruits, but inadequate quality recruits. Major General Evan Gaddis, commanding general of the Army, reports that of roughly nine million males between the ages of 17 and 21, "only 14 percent are the high quality, fully qualified and available prospects all military services want to recruit." The Pentagon could solve its recruiting problems tomorrow if it simply lowered its standards modestly to those of a conscript military. That would leave the AVF with a far higher quality force than during the draft era. Observes Gordon Sullivan, former Army chief of staff and current president of the Association of the United States Army: "Military commanders prefer high-quality volunteers to mixed-quality draftees."

The AVF attracts superior personnel for two important reasons. First, the services can reject people who haven't graduated from high school and so-called Category IVs and Vs—people who score well below average on the Armed Forces Qualification Test. Moreover, a volunteer military draws people who

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want to be there, creating a dramatically different and more positive dynamic compared to a conscript army.

Career retention has long been a Pentagon concern. However, conscription brings in untrained first-termers, not experienced pilots. And draftees, who don't want to be in uniform, re-enlist in far lower numbers than volunteers.

Coercion Not Cheaper

Nor is coercion cheaper than voluntarism. There would be some savings in recruiting costs, but even radical pay cuts would save little, since first-term volunteers earn the least in the military. Moreover, any such savings would be offset by increased costs elsewhere, such as more generous re-enlistment pay and bonuses to build and retain a career force. On top of that would be the costs of classification, induction, and enforcement.

In fact, the Reagan administration's Military Manpower Task Force concluded in 1982 that a return to the draft would actually hike costs by about \$1 billion annually. A draft would also generate significant avoidance activities, economic dislocations, and other social costs.

The alleged unrepresentativeness of the volunteer force rankles some. But conscription would fail to deliver a more representative force. The notion that the military is dominated by unqualified minorities and lower-class whites is a ridiculous myth. Compared to the conscript force, the AVF has a few more African-Americans, high-school graduates, above-average students, and members of the middle class, and a few less college graduates, Hispanics, and members of the under-class and upper-class. It is quintessentially middle America.

Despite the endless, and endlessly ferocious, arguments over representativeness, the most important point may be how little conscription would affect the composition of today's force. Since few draftees re-up, conscription would primarily change the composition of the transient pool of new recruits.

Are there any other reasons to conscript today? One argument is to fulfill all of Amer-

ica's new commitments: Bosnia, East Timor, Haiti, Kosovo, Macedonia, Somalia, and who knows where else in the future. However, even if there is some merit to what Johns Hopkins University professor Michael Mandelbaum has derisively called "foreign policy as social work," there is no justification for forcing young Americans to suit up to patrol a new colonial empire. Such conflicts are not worth the bones of a single healthy American rifleman.

The only other argument with any resonance is that conscription would enforce the moral duties of citizenship. Of course, we all do have important moral obligations. But those duties are owed to others in society, not to the state. And they are owed by everyone, not just 18-year-old males (and possibly females). It is all too convenient for well-paid professionals beyond draft age to sit in the comfort of their offices and pontificate about the duty of young people to serve everyone else.

A volunteer military places the defense burden on everyone. Through it society calls upon patriotic youth to join the military, while sending the bill to old and young alike. At the same time, it withholds from government the extraordinary (and dangerous) power to order citizens to fight and die. This is the proper way for a republic dedicated to the protection of individual liberty to defend itself.

Still, there is no gainsaying that the AVF suffers some problems with recruiting and retention. What to do? Most important, Washington should return to a foreign policy appropriate to a republic rather than an empire. Adjusting America's foreign policy would reduce pressure on the armed forces. With a smaller force less frequently deployed, the Pentagon would need fewer first-termers and careerists, NCOs, and officers. Both recruiting and retention problems would disappear.

It is important never to forget that the military is a means to an end, not the end. The purpose of America's armed forces is to defend a free society built on respect for and protection of individual liberty. That is ultimately the most important reason to reject conscription. □

Plunder Gets a Boost

by Timothy Sandefur

A recent legislative battle in California demonstrates once again the dangers of economic ignorance and what Frederic Bastiat called “legalized plunder.” Assembly Bill 84, fortunately vetoed by Governor Gray Davis, would have “prohibit[ed] a public agency from authorizing a project or development that includes a retail store exceeding 100,000 square feet with over 15,000 square feet to be devoted to the sale of nontaxable merchandise.” This legislation purported to “protect” communities that are supposedly wrecked by larger stores like Costco and Wal-Mart that have started competing with super-

markets. The bill was passed secretly, over the course of three days, without public hearings, and with just barely enough time for the news to cause a public outcry. But even aside from these shady techniques—and the fact that the text of the bill wasn’t even listed on the Web pages of its own sponsors—the bill was a great example of an old political phenomenon: demagogues thriving on ignorance.

Many Californians favored the bill, even if they disliked the secrecy. One letter to the editor in the *Los Angeles Daily News* tells the story: “I’m all for free enterprise,” the writer said, “and some argue that these retailers will benefit our communities. I strongly disagree. Our communities are built around small businesses and local markets that support good

jobs and good business. I fear the loss of good jobs, traffic jams, small businesses closing down and our local government paying for health benefits that these megacenters refuse to offer their employees.”

There has been a lot of press given recently to people’s fear that America’s traditional small towns, with their quaint drugstores and newsstands, are being swallowed up by greedy corporate giants and chain stores. At the same time, many of these critics complain about what they call “urban sprawl,” which in fact merely means the growth of small towns and more opportunities for small-scale entrepreneurs to open their own quaint stores.

It should come as no surprise that the smaller stores would complain and lobby the government to get involved. As Frederic Bastiat wrote in *The Law*, man can live by his own labor, but “It is also true that man may live and satisfy his wants by seizing and consuming the products of the labor of others. . . . [I]t follows that men will resort to plunder whenever plunder is easier than work.”

Boycotting Wal-Mart

Last year, when Wal-Mart announced plans to try its hand at grocery sales, the United Food and Commercial Workers Union (UFCW) and the AFL-CIO immediately protested, marching at non-union Wal-Mart’s headquarters in Arkansas and signing “good neighbor cards” pledging not to buy groceries at Wal-Mart. AFL-CIO president John

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Sweeney even promised to ask that no union-negotiated health plans use Wal-Mart pharmacies. UFCW president Doug Dority said, "Wal-Mart has the money with over \$3 billion in profits. But we have the people. We have the power in our pockets and pocketbooks to stop Wal-Mart from destroying good jobs. We are going to mobilize that power to protect our neighborhoods and our communities."

Protect them from what? Low prices? Neighborhoods, it seems, have far more to fear from economic ignorance than from Wal-Mart or Costco. The National Council on Economic Education's recent study demonstrated how common that ignorance is. "On average," the study announced, "adults get a grade of 57 percent for their knowledge of basic economics," and high schoolers get 48 percent. One out of four adults does not know that an increase in price tends to result in a decrease in quantity demanded.

The connection is clear. The notion that large grocery stores are bad for communities is a self-serving misrepresentation by union leaders, designed to manipulate the economically ignorant. And the saddest aspect of this ignorance is that the economic principles involved, like so much of economic theory, are simple—so simple that economists often have to use big words to make them sound complex. In this case, the economic principle involved is simply, "people work to get things."

Battle Continues

Fortunately, Governor Davis vetoed the bill. But the fight continues elsewhere. A recently

passed ordinance in Clark County, Nevada, would "restrict any retailer with more than 110,000 square feet of space from using more than 2 percent of that space for the display and sales of groceries." In the October 6, 1999, *Las Vegas Review Journal*, the UFCW local's president, Roberta West, argued that if Las Vegas permitted larger grocery stores, "we will all pay the price through increased traffic, neighborhood blight, and elimination of the diversity we have come to expect in our retail stores."

Why would the president of a farm and commercial workers union be concerned with heavy traffic? How would a large grocery store cause "neighborhood blight"? What, indeed, is "neighborhood blight"? Of course, the UFCW isn't concerned with anything of the sort, but with "protecting jobs" from Wal-Mart's competition.

The Clark County measure points up the truth of another statement by Bastiat. "When [people] can, they wish to live and prosper at the expense of others. This is no rash accusation. Nor does it come from a gloomy and uncharitable spirit. . . . Thus it is easy to understand how law, instead of checking injustice, becomes the invincible weapon of injustice. It is easy to understand why the law is used by the legislator to destroy, in varying degrees among the rest of the people, their personal independence by slavery, their liberty by oppression, and their property by plunder. This is done for the benefit of the person who makes the law, and in proportion to the power that he holds." □



Hands Off

A Microsoft study from November 1997 reveals that the company could have charged \$49 for an upgrade to Windows 98—there is no reason to believe that the \$49 price would have been unprofitable—but the study identifies \$89 as the revenue-maximizing price. Microsoft thus opted for the higher price.

Thus wrote U.S. District Judge Thomas Penfield Jackson in November, illustrating, in his view, Microsoft's monopoly power. Because of its "monopoly" position, Microsoft can charge "monopoly prices."

That view underlies the government's entire case. The alleged monopoly enables Microsoft to force adverse terms on other companies and harm rivals by, for instance, bundling its Web browser with Windows and giving it away.

This view is rife with fallacies.

First, by what definition is Microsoft a monopoly? The government says the company has 85 to 90 percent of the market for personal-computer operating systems. That leaves a not insignificant 10 to 15 percent for competitors.

But this gives the government too much credit. Market share depends on how the market is defined. Alan Reynolds has shown that the government narrowly defines the market to further its case. The antitrust lawyers excluded everything except single-user, Intel-based, desktop personal computers. That conveniently leaves out Apple's Macintoshes (10 percent of the market in late 1998), Sun Microsystems' units, and all networked computers. They and a host of other computers

(such as hand-held models) don't use the Intel microprocessor. A significant number of personal computers—15 percent—are shipped without any operating system at all. When all this is taken into account, Reynolds calculates that Microsoft's Windows was on no more than 70 percent of the PCs delivered last year. That's a hefty share, but a monopoly?

Potential Competition

Another problem for the judge's monopoly theory is the ever-present potential competition. The marketplace is never static (unless the government makes it that way). Entrepreneurs and venture capitalists are always looking for high returns. Potential competition can soon become actual. No firm is safe. A complacent, inefficient lone seller garnering high returns is begging for competition. As D.T. Armentano has pointed out, the most effective barrier to entry is *low* returns.

The idea of potential competition makes a mockery of analyses that assay competition by counting firms or computing market shares. The late Yale Brozen documented that concentration in an industry is perfectly consistent with consumer welfare—which confirms the power of potential competition.

Believers in antitrust law don't understand this. Vice President Al Gore, for example, told

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a group of Microsoft employees that “competition can be stifled . . . by private action on the part of companies that want to unfairly use market dominance in one sector to stifle innovation in another sector.” The problem with that view is that Microsoft had to innovate to win market share from its Web-browser rival Netscape. Early versions of Internet Explorer left reviewers cold. The product gained ground only after a third version impressed the PC press and then Web surfers. Moreover, Microsoft keeps updating Windows. Improving Internet Explorer and integrating it into Windows *was* innovation. By the way, Netscape continues to improve its products. Its acquisition by America Online, the leading Internet service provider, only strengthened it. Where’s the stifling of innovation?

No doubt there are would-be innovators who chose not to take on the efficient industry leader. The same thing can be said of any industry. Efficiency is a “barrier to entry,” but it is a legitimate one. If we are doing a proper accounting, we must point out that the large base of Windows users creates economies of scale for anyone who wants to produce applications for Windows-based computers.

Consumers benefit from a standard operating system. It spares them confusion and spawns a large array of software. But that would seem to pose a dilemma: How can we have a standard without stagnation? The free market solves that problem by striking the best balance between stability and dynamism.

The belief that Microsoft has a secure place even in the operating-system market is ludicrous. Rival Linux is spreading, and several manufacturers sell computers Linux-ready. Investors have been eager to put money down on this Microsoft rival. People in the industry may say that Microsoft has a lock on its position, but they don’t act that way. The head of Sun Microsystems, Scott McNealy, complains to Congress that Microsoft “operates beyond the constraints of market discipline.” Meanwhile, he forecasts that in a few years more than half of the appliances used to get on to the Internet will be something other than

computers running Windows. That forecast is not outlandish, considering the new devices coming to market. As Richard Doherty, an industry consultant, says, “Windows, which had been a shoo-in, now has competition.”

“Monopoly Price”

The view that Microsoft is a secure and abusive monopoly persists. Stanford University economist Robert Hall says a copy of Windows 98 might have cost \$10 less had Microsoft not exploited its monopoly.

What is a monopoly price? It is defined by reference to “competitive price” and is meaningless if that concept can be shown to be empty. The late Murray Rothbard, in path-breaking work more than 35 years ago, blew both concepts to smithereens. Assuming that a seller sets his price at the revenue-maximizing level, above which sales would fall (because demand is elastic), Rothbard asked if that is a competitive or a monopoly price. In *Man, Economy, and State* he replied: “[T]here is no way of knowing. Contrary to the assumptions of the theory, there is no ‘competitive price’ which is clearly established somewhere, and which we may compare [any given price] with.”

Even if the seller restricts production to raise the price, we still cannot say that it has achieved a monopoly price. “[T]here is no criterion that will determine whether or not he is moving from a price *below* the alleged competitive price or moving *above* this price.”

Wrapping up his discussion, Rothbard wrote: “If a concept has no possible grounding in reality, then it is an empty and illusory, and not a meaningful, concept. . . . The concept of monopoly price as distinguished from competitive price is therefore untenable. We can speak only of the *free-market price*.”

The upshot is that Microsoft is not a monopoly in any meaningful sense. It’s a group of people with property rights who deal with consenting customers. It can’t thwart competitors except by being better *in the eyes of those customers*.

The government should leave it alone. □

Mere “Isolationism”: The Foreign Policy of the Old Right

by Joseph R. Stromberg

One of the “lost causes” to which libertarians are attached—and one of the most important—is that of the “isolationist” Old Right. As used by the late Murray Rothbard, among others, the term “Old Right” refers to a loose coalition opposed to the New Deal in both its domestic and foreign aspects. While not following a strict party line, Old Rightists largely spoke from the ground of classical liberalism and classical republicanism. This earned them epithets like “conservative” and “reactionary” since those two outlooks were rooted in actual American life. Having something to conserve made them “conservatives”—a terrible thing from the standpoint of the Party of Progress. This was a label that many on the Old Right rejected, arguing with a certain dogged futility that they were the real American “liberals.”¹

The Old Right was effectively dead by 1955 with the death, electoral defeat, or retirement of many of its prominent figures. More important, the Right was undergoing an ideological makeover as new spokesmen (hereafter called the “New Right”) rushed headlong into interventionism and overseas empire under Cold War slogans and policies largely invented by Establishment Liberals.² In an interesting case of cultural lag, the American press continued to refer to the “conservatives” or whatever as “isolationists” well into the later 1950s. They didn’t fully

take on board the transformation of the Right until 1964, when they had to denounce Barry Goldwater as an inhumane, trigger-happy fellow who wanted to immolate poor flower-picking little girls in nuclear Armageddon, unlike Ole LBJ, who would never, never get us into a wider war anywhere. But at least they finally noticed the existence of the New Right. As Carl Oglesby pointed out (speaking of Vietnam), the Goldwaterite New Right “accepts the political description [of the war] and therefore wants the war to be more fiercely waged”³—a point that applies to the entire Cold War. For the Goldwaterites, far more active policies were necessary to “win” that great cosmic struggle than those undertaken by the inept Liberals.

Problematic Premises

The problem was in the premises, and this brings me back to the Old Right’s distinctive take on foreign policies. It was hard to stampe the Old Right into futile crusades involving Total Good vs. Total Evil. As critics of our intervention in World War I, they were aware of the costs of grand ideological crusades and of war itself. This—rather than some unexplained fondness for foreign governments known for big parades and funny salutes—accounts for their participation in the America First movement.⁴ Actually, the Liberals “explained” it on the view that everyone to their Right has bad motives (fascists! Nazis!), whereas those to their Left—the Stalinists

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come to mind—are basically good but in too much of a hurry. (I think we can reject this construct.) For some Old Rightists the aversion to intervention and world-saviorhood continued into the early Cold War period.

These so-called “isolationists” (to use the term foisted on them by their interventionist enemies) worried about the risk of war, the costs of war, and the domestic consequences of imperial policy. They well understood Randolph Bourne’s statement that “war is the health of the state.” Permanent mobilization in time of peace—the essence of the Cold War—fostered many undesirable policies. Conscription was especially evil. Senator Robert Taft of Ohio called it “essentially totalitarian” and added, “it is the most extreme test of our whole philosophy. . . . We shall have fought to abolish totalitarianism in the world, only to set it up in the United States.” When the Truman administration brought in legislation for peacetime conscription, or UMT (universal military training), Representative Howard Buffett of Nebraska argued that Selective Service “would prove to the world that Hitler was right—that the threat of communism externally justifies militarism and regimentation at home.” It rested on “the totalitarian concept that the state owns the individual.” Representative Lawrence Smith of Wisconsin complained that there would be “no escape” from “economic controls, manpower controls, and the regimentation that goes with dictatorial power.”⁵

Felix Morley, president of Haverford College, wrote in 1955 that centralization must accompany our increasingly imperial foreign policy. Our institutions, “rather than our imperial policy . . . will be modified.” Congress was becoming a mere rubber-stamp for agencies working in pitch-black secrecy like the CIA and AEC (Atomic Energy Commission). In 1957, Morley wrote in *Modern Age* that America had reached a point where “we have a vested interest in preparation for war.” Defense spending was a major prop of full employment and we were dangerously addicted to it. Behind the screen of secrecy which the Cold War made possible, we were “losing the substance of self-government” to a rising “self-perpetuating managerial elite.”⁶

Veteran anti-New Deal writer John T. Flynn, a central Old Right figure, wrote in 1955:

By means of war and the post-war mess, our government has managed to keep an evil prosperity going, based on continuous confiscatory taxes, endless borrowing, fantastic adventures abroad, a crooked pretense of war on the Soviet which we saved with our military aid and perpetuated with our Treasury, and which we now nurse as an enemy—not because we fear her clumsy system in a military sense—but because we need her. We need her as the enemy this corrupt system requires to keep the taxes and the borrowing and spending going.⁷

Such biting criticism was banished from the Right, or New Right, by the mid-fifties, and complainers like Morley and Flynn were increasingly isolated. The Old Right detested Soviet communism. Its power, where it existed, made them uneasy. But they refused to turn a blind eye to the dangers of American empire, American bureaucratization, and American militarism. Sustained interventionism, under the Cold War banner as under any other one, deeply threatened America’s historically unique culture of liberty.

Perhaps no one on the Old Right made the point as well as the industrialist Ernest Weir in a speech in early 1951:

As it is we hear too little from our leadership that is positive and constructive. We are told that we must prepare to endure 5 - 10 - 20 years of tension . . . of expanding government and government costs . . . of widening government controls . . . of high taxes . . . of military service for our youth . . . of a garrison state economy. Think what this will mean. It will mean that by the end of 20 years—if it does end then—we will have had two whole generations of Americans who have never had the opportunity to know the real America. They will have no experience with the real individual independence that made this country great but on the contrary they will accept as an accustomed thing, the detailed control over their private lives by a powerful central government.⁸

During the High Cold War such initiatives were as likely to come from the Right as from the Left. A perfect illustration is a collection of "conservative" essays on federalism published in 1961. A majority of the contributors belittled decentralization and the Tenth Amendment and called for endless, hyperthyroidal federal efforts—federal aid to education, road building, desegregation, and so on, in the name of "national strength" necessary to win the Cold War. One contributor even demanded a *federal* building code so that everyone would have a bomb shelter when the Russkies nuked us! Poor Russell Kirk and James Jackson Kilpatrick made little headway defending "territorial democracy" and states' rights in that crowd.⁹

After 40-some years of the Cold War and with no real "dismantling" of its structures—including our old pal, NATO—in sight despite the collapse of the official enemy, it may be time to have another look at the Old Right's critique of the Cold War and intervention.

Who They Were

The Old Right was made up mainly of right-wing Republicans who wished to avert the institutional and economic costs of war and empire. As such, they are not seen as worthy predecessors by the anti-war Left and their insights have been abandoned by most of their Republican successors. Yet they saw that making the authoritarian fixtures of war into permanent "peacetime" policies was the high road to the garrison state. At the same time, the extension of U.S. "interests" all over the world was turning the Old Republic into an Empire.

Arthur Ekirch, Bruce Porter, and Robert Higgs, among others, have noted the inner unity between social intervention at home and military intervention overseas.¹⁰ That great humanitarian and classical liberal Herbert Spencer wrote that "a society's internal and external policies are so bound together, that there cannot be an essential improvement of the one without an essential improvement of the other."¹¹ One might add that a worsening of one runs right along with a worsening of the other. Thus it was hardly accidental that so

many turn-of-the-century social reformers could never praise war and imperialism too much. (Teddy Roosevelt is just one who comes to mind.)

The Old Right was well aware of the philosophical unity of the two spheres of intervention. Senator Taft made the point well:

There are a good many Americans who talk about an American century in which America will dominate the world. . . . If we confine our activities to the field of moral leadership we shall be successful if our philosophy is sound and appeals to the people of the world. The trouble with those who advocate this policy is that they really do not confine themselves to moral leadership. They are inspired by the same kind of New Deal planned-control ideas abroad as recent Administrations have desired to enforce at home. In their hearts they want to force on these foreign people through the use of American money and even, perhaps, arms, the policies which moral leadership is able to advance only through the sound strength of its principles.¹²

This pretty much sums up the Truman Doctrine, the Nixon Doctrine, the Bush Doctrine, and—God save the mark—the Clinton Doctrine. (Yes, he, too, cobbles together "doctrines," when he's not otherwise occupied.) I leave out a couple of presidents because I'm not sure they actually had "doctrines" as such. Certainly they all had *policies* of the same sort. JFK genuinely wanted to move us forward, at home and abroad, but with more excitement, drama, vigor, and counter-insurgency than that dull fellow Eisenhower bothered with. This worked out very well, especially in Southeast Asia. His heir, Lyndon Johnson, illustrates the point perfectly: one of his great brainstormings was to try bribing North Vietnam to give up the war by offering them a sort of Mekong Valley Authority modeled on TVA! The Clinton Doctrine seems to involve exporting all the American new class's delusions about welfare rights and civil rights, bombing those who don't conform quickly enough, and then setting up big civil engineering projects to rebuild the cities of those who

submit. Finally—and like Dave Barry, I am not making this up—FDR's political fixer and factotum Harry Hopkins opined in 1941 that Hitler could only be defeated by "the New Deal universally extended and applied."¹³

In 1991, columnist Charles Krauthammer wrote that renewed "isolationism" on both sides of the political spectrum posed a grave threat to proper (interventionist) U.S. foreign policy. The threat came from right-wing isolationists (Midwestern boneheads who refuse to learn French?) and former "peaceniks" traumatized by Vietnam. At that time, Krauthammer had a long wish list of anticipated "threats" and interventions: "North Korea, Libya, Pakistan, Iran, South Africa."¹⁴ I was all set to watch the JFK Flexible Response Legions rain death down on the heathen and then make up for it by hanging drywall, setting up soup kitchens, and holding seminars on interest-group liberalism and electoral practices in Cook County, Illinois. (Dr. New Deal, meet Dr. Win-the-Perpetual-War.) After all, John Kennedy bogged us down in Vietnam and founded the Green Berets and the Peace Corps. Having it both ways never had it so good.

Since 1991, we have found out that some of the peaceniks do enjoy bombing foreigners, and Krauthammer himself discovered an intervention he didn't like, and for this he should be commended. In any case, renewed "isolationism" anywhere—Left or Right—and by whatever name is something to cheer about. Even so, the task is even more daunting than Ernest Weir predicted, since three, rather than two, generations have grown up under the impression that all the inroads made against liberty and property in that time span are "normal" and even, in a joking sort of way, "constitutional."

Political scientist Bruce Porter suggests that there is some basis for hope. He writes that "[a]t the end of the Cold War, despite nearly fifty years of full or partial national

mobilization, civil society in America remains stronger, more independent-minded and more antistatist than in virtually any country of Europe or Asia." Being more antistatist than the heroic masses of Natovia may, however, not be quite enough. The enhanced state which grew up under cover of endless foreign "emergencies" may, Porter admits, have "crossed the welfare threshold . . . the point at which the state transcends its military origins and acquires a new *raison d'état* as the pilot of the economy and provider of social welfare. Military basis or not, the American state will not go gentle into that good night."¹⁵ □

1. See Murray N. Rothbard, "Confessions of a Right Wing Liberal," *Ramparts*, June 15, 1968, pp. 48–52, and "The Transformation of the American Right," *Continuum*, Summer 1964, pp. 220–31. Also see Justin Raimondo, *Reclaiming the American Right: The Lost Legacy of the Conservative Movement* (Burlingame, Calif.: Center for Libertarian Studies, 1993).

2. See the editorial, "The Ultra-Right and Cold War Liberalism," *Studies on the Left*, vol. II, no. 1 (1962).

3. Carl Oglesby, "Vietnamese Crucible: An Essay on the Meaning of the Cold War" in Carl Oglesby and Richard Shaull, *Containment and Change* (London: The Macmillan Company, 1967), pp. 36–37.

4. On the smears against the AFC, see Michele Flynn Stenehjem, *An American First: John T. Flynn and the America First Committee* (New Rochelle, N.Y.: Arlington House, 1976), esp. Chapter 7, "Anti-Semitism and Profascism in the AFC: Fact and Fiction."

5. Robert A. Taft, "Compulsory Military Training in Peace Time," *Vital Speeches of the Day*, July 1, 1945, p. 557; Howard Buffett, *Congressional Record*, June 15, 1948, pp. 8362–63; Lawrence Smith, *ibid.*, June 17, 1948, p. 8707.

6. Felix Morley, "Conservatism and Foreign Policy: Either the Constitution or the Policy Must Give Way," *Vital Speeches*, January 15, 1955, pp. 974–79, and "American Republic or American Empire," *Modern Age*, Summer 1957, pp. 20–32.

7. John T. Flynn, *The Decline of the American Republic* (New York: Devin-Adair, 1955), p. 161.

8. Ernest T. Weir, "Good Government and a World at Peace," *Vital Speeches*, June 15, 1951, p. 732.

9. Robert A. Goldwin, ed., *A Nation of States: Essays on the American Federal System* (Chicago: Rand McNally, 1963).

10. See Arthur A. Ekirch, Jr., *The Decline of American Liberalism* (New York: Atheneum, 1969 [1955]), especially Chapter 11, "The Progressives as Nationalists"; Bruce D. Porter, *War and the Rise of the State: The Military Foundations of Modern Politics* (New York: Free Press, 1994); and Robert Higgs, *Crisis and Leviathan* (New York: Oxford University Press, 1987).

11. Herbert Spencer, *The Man versus the State*, ed. Donald MacRae (Baltimore: Penguin Books, 1969), p. 189.

12. Robert A. Taft, *A Foreign Policy for Americans* (Garden City, N.Y.: Doubleday & Company, 1951), pp. 17–18.

13. Harry Hopkins quoted in John Charmley, *Churchill's Grand Alliance* (New York: Harcourt Brace & Co., 1995), p. 20.

14. Charles Krauthammer, "The Lonely Superpower," *The New Republic*, July 29, 1991, pp. 23–27.

15. Porter, pp. 293–94.

The Internet: Parental Guidance Preferred

by Keith Wade

It is probably helpful—given how venturing into the areas of “obscene” and “inappropriate” can often lead to name-calling and misunderstanding—to make a point very clear immediately. I do not intend to argue that obscene or otherwise inappropriate materials should exist, that the Internet should be a vehicle for delivering them, or that children should have access to them.

Rather, my point is that the only proper, effective, and realistic force that can keep children from inappropriate materials is the combination of parents and private industry. Although a commonly deployed strategy, legislation is simply wrong and ineffective. (Indeed, the FBI’s *A Parent’s Guide to Internet Safety* advises parents to “Utilize parental controls provided by your service provider and/or blocking software” and “Monitor your child’s access to all types of live electronic communications [chat rooms, instant messages, Internet Relay Chat, etc.], and monitor your child’s e-mail.”) As will be discussed, we can agree on a proper mechanism for restricting children’s access while allowing each household to decide for itself which materials it deems “inappropriate.”

There are few among us who believe that children should have unrestricted access to the Internet (or television, movies, books, or

the beer and wine aisle at the local grocery store, for that matter). While issues and viewpoints vary, most of us accept that at least some things should be the exclusive purview of adults. The Internet has provided children whose parents do not supervise their activities with access to a goodly number of these things.

Given recent unfortunate incidents, there is a redoubled interest in keeping children from inappropriate materials; the government seems more than willing to help. There is, however, simply no need for the government to assist parents in this way. There already exist—in addition to the obvious “no brainer” solution of supervising one’s children—ample economic incentives, free or low-priced tools, filtered Web access, private-industry utilities, and not-for-profit service groups to exclude children from “offensive” online material.

The Communications Decency Act

Perhaps one of the most blatant offenses against freedom of speech in this country in the past several decades is the Communications Decency Act of 1995. While the act was declared unconstitutional, the idea of censoring the Internet is one that will not die.

The act would have made it a crime for anyone to use “any interactive computer service to display in a manner available to a person under 18 years of age, any comment, request suggestion, proposal, image, or other commu-

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nication that, in context, depicts or describes, in terms patently offensive as measured by contemporary community standards, sexual or excretory activities or organs, regardless of whether the user of such service placed the call or initiated the communication.”

On the surface, many people find no problem with this. Children do not have the same rights as adults, and few would argue that they should have them. There are clear-cut reasons for keeping certain materials away from children until their judgment, values, and sensibilities have matured. But legislation such as this denies access not only to children but also to adults who presumably have every right to decide for themselves what offends them.

“Available to a person under 18 years of age” is an exceedingly broad and terribly subjective term. Does this mean, for example, “available to persons under 18 whose parents do a good job of supervising them” or “available to persons under 18 who are fraudulently misrepresenting themselves (perhaps to assist law-enforcement officers entrap someone)?” Considering that an Internet service provider or Web site operator cannot look at driver’s licenses, the only way to outlaw access by youth is to outlaw “inappropriate” sites entirely. Much as we might like to do that, the Constitution is fairly clear in prohibiting censorship of communication we do not like, even for something as laudable as protecting the nation’s children.

Perhaps as big a problem as the unconstitutionality of outlawing “offensive” Internet material is the definition of “offensive.” This is an area in which one size simply does not fit all. While children may have to bow to the idol of secular humanism in public schools, parents still have the right to instill whatever values they wish at home. Most parents make an effort to shield their children from bad influences during the impressionable years. These bad influences, however, vary from parent to parent. One person’s “family values” is another’s “hateful speech.” One family’s “intolerance” is another family’s “fundamental beliefs.” I recently received a self-diagnosis book from my HMO that I would never let a child see; one company’s “educational materials” are my family’s “full frontal nudity” and

“simulated sexual activity.” Parental values simply vary too widely to let any one group decide what is appropriate for children.

Enter the Free Market

Fortunately, we need not rely on legislation to keep children from sites they ought not see. The free market offers numerous solutions.

Many magazines (the ones behind the counter at the bookstore) have been ruled legal but are deemed inappropriate for children. What stops children from picking up the phone, calling the toll-free number, and getting a subscription (after all, magazines do not require proof of age)? Money. Even if parents don’t monitor the incoming mail (probably for the same reason they don’t monitor their children’s computer usage), children are not known for their discretionary income or access to checks and credit cards.

Few folks operate commercial Web sites out of the goodness of their hearts. Setting up and running a site costs money. While there may be people who put “offensive material” on the Web just for the sake of doing it, most have products to sell. There’s no economic incentive to let kids into the site.

One incentive to keep kids out is the money that age-verification companies will pay site operators to do it. Several companies pay Webmasters a commission for each patron referred for age verification. The patron pays for an access number after proving he’s of age, then uses it at restricted sites.

Adult Check, for instance, advertises that it provides Webmasters with protection and profits. The company has developed “a complete system of adult verification, identification number assignment and a lucrative income earning opportunity for Webmasters” (www.adultcheck.com). Tens of thousands of Webmasters have installed this gatekeeping solution, and numerous verification competitors (each with screens full of information about the potential profit for Webmasters) have popped up.

Family-Friendly Filters

Many companies have entered the market to provide “family friendly” Web surfing.

MayberryUSA markets itself as a child-safe Internet service provider (ISP). It offers “a filtering system designed to give our netizens the best in Internet protection. We check the entire Internet daily, and update our filter. MayberryUSA wishes to provide its members with the best the web can offer and to protect its citizens from the dangers of pornography, hate groups, criminal skills, illegal drugs, and other offensive material” (www.mbusa.net).

Realizing that “offensive” means different things to different people, MayberryUSA lets users help define what is accessible to themselves and their children: “anytime you find an offensive site, YOU can help protect our community. Click the green *Sheriff* sign on our sign post or the *Badge* at the top of any of our main pages and make your report. We will take immediate action to filter that site from the MayberryUSA community.”

America Online also permits users to restrict access to AOL areas, Web sites, chat rooms, and instant messaging through its “parental control” feature.

Perhaps the most important thing about family-friendly Web sites and surfing is that they are voluntary (and therefore have a keen interest in staying closely aligned with their customers). If someone does not want or need restrictions, or thinks his provider is letting in too much indecency, or thinks it’s gone overboard in its restrictions, he can change providers.

For the parents who would prefer not to rely on Webmasters and Internet service providers to prevent access to children, there are many software alternatives. The newest versions of Microsoft Internet Explorer and Netscape Navigator include filtering capabilities that allow parents to decide what can be accessed. In the latest edition of Internet Explorer one can choose from five different categories of violence, from “no violence” to “wanton and gratuitous violence.” Sex, nudity, and obscenity screens have similar continuums.

While most legislation aims strictly at pornography, the commercial tools give parents control over much more. The maker of Net Nanny says the product “isn’t limited in

terms of content type. You can screen and block anything such as Pornography, bomb-making formulas, hate literature . . . or whatever else concerns you. If you can define it, Net Nanny can block it!” (www.netnanny.com). Another product, CYBERSitter, “includes databases in numerous categories of web sites you might want to restrict access to” (www.cybersitter.com).

Online Guardian Angels

There’s yet another kind of protection for children in cyberspace. Much as they did on the urban streets, the Guardian Angels, through their CyberAngels branch, help police enforce existing laws regarding child pornography and child abuse in cyberspace. “We’re your cyber-neighborhood watch,” the organization literature says. “We find and report illegal material online, educate families about online safety and how to enjoy cyberspace together, work with schools and libraries, and share basic Internet tips and help resources” (www.cyberangels.com). CyberAngels also monitors the Web and furnishes its list of 8,000 offending sites to filter-software companies and family-friendly ISPs.

Further, the group provides a babysitting service: “Our [volunteer] CyberMoms do what moms do best . . . keep their and your kids safe online. Specially trained to spot child predators online, they volunteer to moderate kids’ chats and watch children in cyber-playgrounds for online services and websites.”

We currently have many laws against the exploitation of children. While society is undoubtedly served when those who prey on children are caught, tried, convicted, and locked up, the damage to the children has already been done by the time offenders are apprehended. The virtue of private-sector methods to keep children away from inappropriate materials and computer users is that they prevent such harm.

One of the great truths in life is that families and private industry can generally do things better and more efficiently than government. This is no less true in cyberspace. □



Spreading the Work to Create More Jobs

Last month I emphasized that job creation is not a sensible objective for economic policy. The purpose of economic activity is not to do work for its own sake. What's the point of creating jobs to produce goods or services that consumers don't want as much as other things that could have been produced? Yet there is a widespread view that having government create more jobs is the best way to promote economic progress. Wrong. Relying on government to create jobs invariably retards economic progress.

Productive jobs are created when people have the freedom to communicate and cooperate through markets. Consumers communicate the value they place on different jobs by how much they are willing to pay for products. Anytime a firm employs workers to produce a more valuable good than workers are producing at other firms, consumer purchases tell that firm: "We will make it profitable for you to expand output by offering higher wages and bidding workers away from less valuable jobs." Workers end up cooperating with consumers by moving into the production of more desirable products until all gains from such a move are exhausted.

Similarly, firms communicate how much it costs to produce different products (including the cost of hiring workers) by how little they are willing to charge for those products. When firms can lower production costs by

making more valuable use of workers, they communicate that fact to consumers through lower prices. This motivates consumers to buy more of the industry's product and motivates the industry to hire more workers. Again, workers cooperate with consumers by moving into those jobs where they produce what consumers are most eager to have.

When government tries to create jobs it always interferes with market cooperation between workers and consumers. So even when jobs are created, people are directed into jobs in which they are producing less value for consumers than they could be producing. Government attempts to create domestic jobs by restricting imports is an example of undermining the market cooperation that creates the most productive jobs. By preventing people from buying products from the most efficient producers, import restrictions prevent the cooperation that guides workers into those jobs in which they have a comparative advantage; that is, where they produce the most wealth. Unfortunately, there are many other examples of how government job creation destroys wealth by distorting market interaction between consumers and workers. Consider one way that government attempts to expand employment.

Spreading the Work

France is currently attempting to reduce its high unemployment rate by making it illegal for any employee to work for more than an average 35 hours a week. That policy would

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make sense only if there existed a fixed amount of work and it was being done by fewer than the available workers; in that case, more workers could be hired only if the amount of work done by each were limited. If this is true in France, then it has pulled off an amazing feat. The French must have all the goods and services they want, with work and toil being the only scarce things remaining. But if work rather than desirable goods is what the French lack, there is a better way of taking care of the problem than restricting the hours of work. They could simply destroy a percentage of everything produced. This would create more jobs for people to replace the destroyed output, plus additional jobs to do the destroying.

Unfortunately, neither the French nor anyone else has overcome the problem of scarcity. If more of the things people value are produced, people will be anxious to consume them as long as market communication is undistorted by government restrictions. Imagine a technological breakthrough that allows one person to produce everything currently being produced in a country. Does anyone believe that the country would be worse off or that everyone but the one person would be unable to find work? Of course not. The country would become incredibly wealthy as millions of workers were freed up to produce additional products that consumers had been doing without. And in the absence of market distortions, the extra output would be consumed since it would result from consumers' communicating their desire and willingness to purchase it.

Interestingly, it was the nineteenth-century French economist Jean-Baptiste Say who explained why expanding output should be no problem. Say's explanation is often distorted as meaning that "supply creates its own demand," which has become known as Say's Law. But this is a straw man. Neither Say nor any other sensible economist believes that the production of any particular product, or bundle of products, will create the demand for it. Producing something that no one wants will not create a demand for it. What Say

explained is that when market prices are free to respond to changing production costs and consumer preferences, then the decisions of suppliers and consumers are coordinated and there is no need to worry about unemployment caused by gluts of unwanted goods.

Drilling More Holes

Trying to reduce unemployment with government restrictions on the number of hours that people are allowed to work is like trying to sober up with more drinking. Such restrictions add to existing government policies (such as minimum-wage laws, regulations on dismissal, and mandated benefits) that are already reducing cooperation between consumers and workers. Also, enforcing these restrictions employs workers, who could be responding to consumer desires, to make sure that other workers don't respond to those desires. For example, the French government hires "work police" to enforce the work restrictions. They do such useful things as note how long cars are parked outside businesses. This snooping is not merely a total waste of time. It is worse than that, having led to the detection of renegade executives who have committed the crime of working the extra hours required to negotiate complex deals that, if culminated, would lead to more productive jobs.

The more distortions governments impose on market communication and cooperation, the more problems they create—problems they can use to justify more distortions. It is as if you are on your boat and a government official comes aboard, announces he is there to help, and drills a hole in the bottom. But don't worry. As your boat takes on water and starts to sink, the official reassures you that he is going to drill some more holes so the water can run out.

Government's attempt to create jobs is almost always the economic equivalent of drilling holes in the bottom of a boat. The problem is that the costs are greater than we realize and commonly disguised as benefits. □

Why Medicine Is Slowly Dying in America

by Michael J. Hurd

The American Medical Association recently voted to form a national union for physicians. It's official. Doctors are now unionized—just like public school teachers, postal workers, and truck drivers.

In one sense, unionizing is a good step for doctors. Everybody asserts their health-care “rights” today *except* for physicians. We hear about patient rights and HMO rights and government rights. We never hear about the doctors’ rights. It’s time doctors stood up for themselves too—for their patients’ sake as well as their own. If they don’t, the quality of medical care will deteriorate (as we already see happening), and we’ll all suffer the consequences.

Why didn’t doctors need unions in the past while they do today? Turn back the clock to the 1960s when Medicare became law. Medicare, for all practical purposes, socialized medicine for the elderly. At first, it seemed like a good deal for everybody. The best health care imaginable—all for free! Who could argue with the goodies? Excellent reimbursement rates for physicians. High-quality care for elderly patients—with little or no cost. Low payroll tax rates—at least initially.

Then reality set in, slowly, as it usually does. By the 1980s, it was clear that medical costs were skyrocketing. It’s not hard to figure

out why. Elderly patients no longer had to worry about costs. Doctors felt no competitive pressure to keep rates reasonable to stay in business. Guess what happened? Demand for health care skyrocketed. So too did cost.

The Law of Mandates

The extent to which the government mandates a product or service as free is the extent to which demand for it will rise. If the government suddenly legislated that all cars were free, then everybody would clamor to have three or four cars, rather than one or two. People who normally would be content not owning a car at all—perhaps because they lived in a city or relied on a close friend—would want a car because, what the heck, the government’s paying for most or all of it anyway. And people who used to be content with Chevrolets would want BMWs and Mercedes-Benzes.

With demand for Medicare shooting ever upward, the government had to do something. If not, we would all soon be paying 85 percent of our income in payroll taxes just to cover Medicare. In a strange sort of way, government and HMO bureaucrats have saved us from this fate. They started to make the cost-cutting decisions that we, as individual patients in the medical marketplace, righteously refused to face. When costs began to skyrocket, voters in effect told their politicians, “For heaven’s sake, *do something*. I don’t care what. Just *something*.”

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And “do something” they did: in the form of ever-increasing controls. Somebody has to do it. If patients and doctors are not going to control costs—and it is most certainly not in their interest to do so under a free-lunch, socialized program like Medicare—then clearly the government will have to do it for them.

Ironically, as legislation has sought to remove capitalism from the medical sector, medicine has become more concerned with money than ever before. Prior to Medicare and government regulations, you did not hear horror stories of patients who were turned away from life-preserving surgery or medication because bean-counting bureaucrats were trying to save money. Now such tales are commonplace.

Yes, the sanctimonious Great Society “liberals” of the 1960s were successful at removing the “stench” of business from medicine. And look what they gave us in its place. The kindly family doctor has been replaced by the cool, terse HMO physician—whose primary incentive is to see as many patients as possible, as rarely as possible.

Medicine is slowly evolving into a war of all against all. Doctors find patients increasingly demanding and greedy in their use of medical services they do not have to pay for. Patients find doctors increasingly arrogant and uncaring because, after all, the doctors don’t really answer to them. Thanks to government regulations, doctors now answer to the third party who pays their bills and tells them how to do treatment. No wonder there’s a call for a “patient bill of rights” as well as a union for doctors.

Has the elimination of freedom and capitalism really been good for patient and doctor? Has our four-decade experiment with socialized medicine been a success? No, most would reply. Yet these same people cling to Medicare and government regulation with the tenacity of a child clinging to his teddy bear.

Spreading Control

In the 1990s government controls slowly spread from Medicare to what remained of the “private” sector. Non-elderly patients were, for the most part, shoved into HMOs

and other managed-care programs. In 1993 the government tried to force everybody into managed care by decree. The infamous Clinton plan sought to equalize the mediocrity. The plan failed to pass, but for the most part medical care today *is* managed care. Government-inspired managed-care companies are running the show, much more than doctors and patients are. Instead of socialized medicine, we have fascist (superficially private) medicine.

In formerly communist countries, and in socialist democracies such as Canada, France, and Great Britain, citizens are used to things being this way. They don’t even have HMOs. Instead, monolithic government agencies, similar to our Department of Health and Human Services, control medicine. It’s called “single-payer” insurance, which will become the next big push in the United States if people like Ted Kennedy and Hillary Clinton have their way.

Most Europeans and Canadians have no concept of genuine medical excellence because they’ve never experienced private medicine. Americans are different. We prefer to have more control over our lives than people do in other nations. We used to have private medicine here, and to a limited degree we still do. We liked—and still like—the results of private medicine, which include dignity and respect for both doctor and patient.

Yet most of us have accepted a lethal contradiction. We have endorsed the idea that trading value for value—in the form of dollars—is somehow tasteless or wrong in the medical arena. So we call on government to handle the dirty economic business for us. Observe the results.

In a sense, medical care is less valued by today’s patient, because it’s cheap and looked on as a “right.” Such a mentality is a breeding ground for mediocrity. Look at how the public school system has evolved into mediocrity (and even violence). Kids have a right to “free” education, run by the government and unionized teachers—but how much of a value is it?

The same is starting to happen in health care. We’re in the earlier stages of the same kind of breakdown currently becoming more obvious in the public school system. How

long before some crazy patient shows up in a doctor's office with a gun, frustrated by the lack of service his \$5 copayment is buying him? (Indeed, indignant that he has to pay the \$5 at all.) It happened to public education. Why will it be any different with public medicine? Consider Medicare.

People cling to Medicare just as they do to the public schools. They seem to think it's some kind of mystical oracle that can make something out of nothing—when in fact (as even its government overseers admit) it's a fiscally bankrupt actuarial disaster that destroys the rights and responsibilities of doctors and patients.

Watching pressure-group representatives shriek on the evening news that "Our Medicare must be preserved!" is like watching grown, educated adults cry, "The tree that grows money must not be cut down! How dare anybody think of cutting it down!" It's absolute madness.

Today, most doctors and patients clamor for increased rights without increased responsibility. Yet if they are going to support government programs like Medicare and the many state and federal regulations that increasingly grant a "right" to this or that form of medical care on demand (or, at most, for a small copayment), they have to live with the consequences of such legislation.

The consequences include losing control over who your doctor will be and over medical decisions that affect you. Neither doctors nor patients like those consequences, but they continue to push for more government regulations and mandates anyway.

If you want less government control (including indirect government control, such as HMOs and managed care), you need to support privatization of the medical care system. This will require all patients to shop more carefully and rationally for services, the same way they now shop carefully for cars, computers, and groceries.

Privatization will also require doctors and insurance companies, competing in the marketplace, to keep costs reasonable in order to meet the demands of the patient-consumers. If Dr. Jones charges too much for foot surgery, Dr. Smith can open a clinic across the

street and charge less. In a free market, where rates are *not* uniformly imposed by the Health Care Financing Administration or some HMO board of directors, Dr. Smith will have every incentive to do so.

The new government policy must be: "Take responsibility for your own health care—and we'll lift the legal and tax burdens off your shoulders immediately." Young and middle-aged people must be put on notice that Medicare's days are numbered, and they must start saving and investing on their own.

If you don't want all this added responsibility, then just leave things the way they are now. Don't pressure your representatives to privatize health care. The government will just keep taking more and more control, which means: taking more and more control over your bodies and your lives.

Then in another few years everything will probably be run by the state or federal Department of Health and Human Services. (They will call this "streamlining.") You'll have lengthy waits for surgery, just like they have in Britain and Canada. Doctors will already be unionized, making them more defensive, arrogant, and adversarial than ever. Lawsuits will increase, driving medical costs still higher. Medicine, for everyone except the highest government officials, will work like the post office—only the stakes are much higher than the delivery of your mail! The waits will probably be longer too.

Today, most Americans righteously expect the best health care in the world. Government and intellectual elites have convinced them that they have a right to it on demand, whether they want to pay for it or not. But sooner or later reality always asserts itself. He who picks up the tab eventually runs the show—indeed, *has* to run the show. Patients and doctors are getting what they voted for and demanded. In the end, the politicians are simply following the voters' orders.

At the dawn of the 21st century we enjoy a window of opportunity. A strong economy makes ending government programs such as Medicare more feasible than ever. It may be our last chance to privatize medicine without even more painful results. We had better move quickly. □

Saving Money by Taking Lives

Two weeks ago, my 91-year-old mother-in-law died in a nursing home in Amsterdam. But although she had been suffering for nine months from a paralysis that prevented her from speaking and eventually from swallowing her food, she did not die a natural death from lack of nourishment. She died because the doctors decided that her time had come.

Even though she had never given any indication of wanting to die, the medical authorities at the Amstelhof home refused to perform a simple surgical procedure to put a nourishment tube in her stomach in order to prolong her life. They even refused to give her water intravenously. Without the benefit of widely available modern medical care, my mother-in-law expired within five days. Because she was unable to speak, the doctors at the government-financed nursing home made that decision for her.

While her case was not one of euthanasia, it clearly was a product of the "culture of euthanasia" that now abounds in Holland. Once the taboo against terminating patients dissolves, it is a short step to ending patients' lives "for their own good" with neither the patient's nor the family's consent. The point, we were told, was to save her from further pain and misery. But until the day when she could no longer swallow, she had shown a voracious appetite and a zest for life.

The real motive for the Amstelhof doctors' deadly actions, of course, was economic. Caring for old people is a significant burden on the public finances of the welfare state. Moreover, to extend life in fragile old people can be very costly. The medical authorities at the nursing home never informed us about the options for prolonging my mother-in-law's life because it was in neither their personal interest nor their country's economic interest to do so. A well-informed patient is an expensive one.

In the U.S., my dog got better treatment than this. The week before my mother-in-law died in Holland, my 13½-year-old Irish setter was stricken with kidney disease and refused to eat. The vet said the dog would die without nourishment and that the only way we might extend her life was to place a tube in her stomach or esophagus. When I winced, the vet convinced me the procedure was simple and effective. We went ahead with the operation.

Free-market opponents might say the vet pushed the tube solution only to make a handsome fee on the operation. But if this is the case, it's a blessing. The vet's economic incentives encouraged her to let me know what my options were. With that knowledge, I was free to decide. In Holland the potential for profit gouging has been removed from the health-care system. As a result, the Dutch medical community cannot make money extending life; they can only lose it.

Sadly, both my dog and my mother-in-law died within a week. But my dog died despite the doctors; my mother-in-law died because of them.

—MELVYN KRAUSS
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A Mad Scramble at 30,000 Feet

by Edward J. Lopez

Airlines have been taking it on the chin lately. Travelers are busier, delays are likelier and longer, airports are bursting at the seams, and FAA complaints have doubled. Last summer Andy Rooney stood up for all travelers on his *60 Minutes* commentary when he raged at the airlines, “we’re sick and tired and we’re not going to take it anymore!” The airlines aren’t sitting on their tail fins, either. On June 29, 1999, the industry announced its Air Traveler’s Bill of Rights, with gems such as declaring the passenger’s right to access the court system. Then in August 1999, American Airlines and United Airlines publicly apologized to passengers for severe delays at busy airports.

This is a difficult situation for the airlines because passengers are partly responsible for delays. Excess carry-on baggage, in particular, costs the airlines a lot of time and money. In December 1998, United installed baggage templates at X-ray machines to prevent passengers from carrying on bags larger than 14 inches long or 9 inches tall. American Airlines did the same thing a year later. Their thinking is that less time will be wasted scrambling for overhead bin space, which will get passengers to their seats sooner and help eliminate delayed departures. Sounds good in theory. But will it work?

A healthy dose of economic analysis

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promises an efficient solution to this problem that will suit everyone involved.

First the problem. Most people do not like to check their bags because it adds time and the risk that the airline will misdirect, damage, or lose the luggage. Airlines figured this out long ago and recognized that without some restrictions, most passengers would try to carry on all their bags. This would be a problem (not enough space) as well as a safety hazard. In response, airlines began to limit the amount of luggage passengers may carry onto the plane—typically two pieces of a certain size. These restrictions are meant not only to ensure passenger safety, but also to create an *equal* amount of carry-on space for all passengers.

Anyone who has taken a flight recently knows the system doesn’t work. Airplanes have two areas for you to place carry-on baggage: the small space beneath the seat in front of you and in the overhead bins. Most passengers prefer to put their bags overhead so they can have more legroom. People who get on the plane first tend to stow both bags up there. Soon the bins fill up and people who board the plane later cannot find overhead space. Passengers become frustrated as they scurry up and down the aisle looking for an open bin. Flight attendants get flustered and often have to gate-check extra bags. As a result, the departure is usually late by a few minutes, and if it isn’t, it’s because the airline has factored this wasted time into their schedules. In short, no one is happy.

People Differ

Airlines need to recognize that people are not all the same. When you spend time at the baggage carousel, you're giving up some other use of that time. You could be in the airport lounge having a drink, or looking for the friend who is picking you up, or making your way home in the comfort of your own car. Every traveler values that time differently. Similarly, people may evaluate the risk of checking their bags differently. Some infrequent flyers might be uptight about turning their valuables over to blue-collar baggage handlers with reputations born of Samsonite commercials. Others might not give too much thought to it because they've checked bags a hundred times and never had any problems.

It is an obvious point: people value time and risk differently. But that point can help us to understand the problem and to find a solution. In other words, when no one is happy, economics can help.

This problem has long been understood as the "tragedy of the commons."* Whenever a valuable resource is *commonly* owned, every individual "owner" tends to use more than his "fair share" because, while enjoying the benefits, he does not absorb the full cost of doing so. When most people act this way, the result is a general overuse of the resource and an overall unhappy ending for everyone involved. Similar tragedies occur everyday: congestion on interstate highways, overhunting of elephants in Africa, overfishing in the north Pacific. Because of airline policy, overhead bins, too, have become a tragedy of the commons. But there are workable and well-known solutions to commons problems. Reconsidering the airlines' situation in this framework should help us figure out what would be the best way to make travelers and airline personnel happier.

The current system is so inefficient because airlines allocate overhead bin space on a first-come, first-served basis. Doing this creates its

own "tragedy of the commons." A better system would allocate the space first to those willing to pay more than others to reduce their waiting time and risk and to increase their legroom.

You might complain that this system wouldn't be fair. It would treat people differently. But that's the point! This type of *efficient* solution differs from the airlines' current *equitable* solution. For example, you might think that the problem could be solved by simply enforcing current restrictions on carry-on bags. But airlines are already doing that. Or you might suggest that airlines allow only one carry-on bag. This would certainly get rid of the *overuse* problem, but now there would be an *underuse* problem. I recently received a satirical e-mail about New York City's Central Park, another example of the tragedy of the commons. This e-mail reported that the NYC park authority planned on releasing a small pack of wolves into the park to cut down on the overuse problem. It's a funny idea in a dark sort of way, and it's thoroughly equitable unless you factor in slow runners. But it wouldn't bring about an efficient outcome. It's like telling people they can't carry *any* bags on board an airplane.

There's No Market

The way airlines currently allocate bin space, while not as deadly as a pack of wolves, is still wasteful. Why is this so? First, passengers don't have property rights over their own bin space (as they do their own seats, their own peanuts, and their own complimentary magazine). So there is no way for someone who boards the plane late to guarantee himself some bin space, *even if* he values it highly. At the same time, there is no way for someone who does *not* value the bin space highly to be compensated for giving up the space. *We're missing a market for overhead bin space.* To solve the inefficiency, we need to somehow think of a way for passengers to *trade* for overhead space according to the value they place on it, which really means value of their time and comfort and their perceived risk of checking bags.

What would this market look like? The

*Garrett Hardin, "The Tragedy of the Commons," *Science*, 1968, pp. 1243-48 (<http://www.cs.colostate.edu/~heckendo/tragedy.html>). For a useful and current treatment of the issue, focusing on institutional remedies to commons problems, see John A. Baden, Douglas S. Noonan, and William D. Ruckelshaus, eds., *Managing the Commons* (Bloomington, Ind.: Indiana University Press, 1988).

first thing is to create property rights. Each passenger, or each seat, would have a given amount of bin space—say, enough for one standard carry-on bag. This way, people who want to carry two bags with them will have to place one under the seat. But going only this far merely achieves an *equitable* solution, not an *efficient* one. If we give passengers not only property rights over their bin space but also the ability to trade with other passengers for that space, the situation would greatly improve. Passengers who didn't mind checking their bags could "sell" their bin space to others. And those who wanted to carry more luggage on board could do so, as long as they compensated the owners of the extra space.

This sounds good in theory, but what about the practical side? We can't exactly expect people to run up and down the aisles shouting out their supply and demand prices for overhead bins. Talk about wasting time! But there is no reason to resort to that kind of solution. Instead, let's capitalize on the airlines' existing computerized information system to settle this. Airlines would sell bin space as an add-on to the ticket: "Would you like overhead space with that?" If you're in a hurry, or you're carrying something really valuable or breakable, your answer would very likely be yes. And you would pay a little extra for your ticket to ensure some space. On the other hand, if you

don't want to pay the extra, you would say no. Soon enough, the airlines will balance out all the yeses and nos and reach a market-clearing price, just like all other markets when they are allowed to work. Those who value the space highly will get it, and those who do not will not—an efficient outcome.

You might object that this is just better for the airlines because they'd get to charge an even higher ticket price. Good objection, but I don't think that will happen. Airlines *already* charge for overhead bin space, whether you use it or not! A small portion of every ticket price goes to offset the cost of creating that space. In the system I've described, airlines would compensate those who do not use bins with a lower price. Likewise, they would charge those who *do* use bin space even more than now. Also, since a market for bin space will make flights faster and more efficient, costs should fall (even if by a small amount). In effect, airlines would drop the base price and then add to it if a passenger wants overhead space.

The economic way of thinking is capable of solving interesting problems and improving people's lives—even if just a little bit, as in the case of overhead bin space. If you add up all the little ways economic thinking can improve how societies organize their interactions, it would be quite an improvement indeed. □

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Heart over Mind: The Death of JFK, Jr.

by Eric Nolte

Because I am an airline captain for a major carrier, I was deluged by friends with questions from the moment John F. Kennedy, Jr.'s airplane disappeared last July.

"Why on earth was he allowed to take off into weather he wasn't trained to handle? Why didn't the government *do* something? Why wasn't he stopped? How could anybody with his lack of experience be given permission to take off on such a night? How can we make sure this won't happen again? Why can't the FAA create and enforce laws that are strong enough to stop this kind of thing?"

When the waves closed over the watery graves of Kennedy, his wife, and sister-in-law, calls began to arise for greater regulation of private pilots. But there were already plenty of regulations on the books to cover every facet of Kennedy's last flight. As I asked my friends, how would the government restrain anybody from getting in their cars and driving off a cliff? How does one regulate common sense? And more to the point, what are the hazards of granting government the power to attempt such regulation of horse sense?

We live in an era when most people assume that every new problem is properly open to solution by government regulators. Implicit is the belief that the regulators have enough power, information, and wisdom to meet any new challenge.

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Young Kennedy's pitiful death illustrates some of the issues that arise from the question of government regulation and the hugely vexing and misunderstood question of the major political tension of our age: the questions of the political primacy of the individual versus the state, and the very purpose of government.

As you read on, ask what sense you can make of the moral philosophy and political policy that are invoked by those who in the wake of young Kennedy's crash are now calling for more government regulation. Also consider a life metaphor that was suggested to me by my career as a commercial pilot.

Why Did Kennedy Crash?

In the last few minutes before Kennedy's little single-engine airplane went into the heavy seas off Martha's Vineyard, its radar track showed all the evidence of a mind wobbling in the tortured confusion called vertigo. This confusion steered Kennedy down a horrifying spiral to his death on that hot and hazy night in July. If you've ever felt the searing pain of belly-flopping off a diving board, you might rightly suspect that hitting the water at high speed is an impact not much different from colliding with a granite cliff.

The kind of bafflement and panic that killed Kennedy arises in a mind as it struggles with the contradictory signals of its inner ear and its rational faculty. Reason and emotion are at war. The inner ear evolved over millennia to measure one's movement in relation to the

fixed sensation of gravity. Gravity always acts as a vector pointing straight down to the center of the earth. The inner ear is equipped with tubes of liquid that shift in response to any movement while the mind compares these signals against this fixed sensation of gravity. This balancing apparatus signals the pilot's mind and says, "You are strapped into a seat that is now as level as if you were sitting squarely at your kitchen table."

By contrast, at the same moment he was feeling perfectly right-side-up, the aircraft instruments, when correctly interpreted, conveyed the message, "Your wings are tilted steeply to the right of level, the nose of this airplane is pointing way down, and your air-speed is already howling past the red line."

The airplane's flight path creates forces that befuddle one's awareness of earth's gravity. To judge by the sensations in the seat of your pants, you literally can't tell up from down, left from right. You are as helpless to move out of the airplane's acceleration field as you would be if you were pinned to the side of a spinning circus centrifuge when the floor drops away.

And here is the crux of the matter: the pilot's emotions drowned out the flight instruments' story about banking and diving at high speed, and screamed out, "No way! It can't be! I'm actually flying straight and level! I know it! *I feel* it's true!"

What Is Essential to Seeing Rightly?

Antoine de Saint-Exupéry was a famous French pilot of the golden age of aviation and a renowned author. "It is only with the heart that one can see rightly, for what is essential is invisible to the eye," says the fox to his eponymous little prince, in Saint-Exupéry's most famous book.

I take Saint-Exupéry's sentiment about the heart's efficacy to mean that emotion is the proper tool for grasping what is essential about life. We feel what is right. We know life's truths through the prodding of our heart. This notion has ancient roots that go back at least as far as Plato's formulation of "*anamneses*." *Anamnesis* is the doctrine that our knowledge is rooted in a perfect realm beyond

mere experience, which we can discover through some mystical process of feeling. Such notions of knowledge are widely held in our culture to this day. Moreover, there are legions of people who hold reason itself to be a coarse and unsophisticated faculty that does not grasp reality so much as it invents an idiosyncratic fantasy, peculiar to each individual, conditioned by the irresistible forces of race, gender, and class, stemming from the accident of a person's birth. Millions of people reject reason as a proper tool for making sense of the important problems of life.

I find it ironic that a seasoned aviator like Saint-Exupéry would hold this mystical prodding of the heart as a proper guide to knowledge. Let's consider what this would mean in the cockpit of an airplane and then look again at the known facts surrounding John Kennedy's crash.

I was a flight instructor for many years. My students were mostly beginners and private pilots seeking an instrument rating, so I know something about teaching a neophyte how to pilot an airplane in bad weather, solely by reference to the flight instruments.

It's not so hard to keep an airplane straight and level when you first fly into "the soup." You can fly along happily enough without any view of the world outside the cockpit by using the various gyroscopically stabilized instruments. The whole array of instruments provide accurate indications of the airplane's pitch, roll, and yaw—the measures of motion around the three axes of flight.

The tricky part of flying on instruments is what happens after inevitable moments of distraction. You're flying along happily when the air-traffic controller tells you to switch radio frequencies so you can talk to another controller before you fly out of radio reception range. You reach down to fiddle with the knobs, and when you look back up at your six basic flight instruments, from which you extract and integrate all the information you need to keep the airplane right-side-up, you think, "Hey, what's going on here?" You didn't feel the airplane bank, and you feel a sudden moment's confusion when you see a frighteningly different picture from what you expected to see.

So the real skill of instrument flying consists of the ability to *regain* control of the airplane when it inevitably veers off in alarming directions. Instructors call this lifesaving skill “recovery from unusual attitudes,” and the mindful instructor always gives even beginners big doses of it.

Recovering from unusual attitudes consists of one essential belief: your feelings cannot be trusted as the final authority on what the airplane is doing. Your mind is boss. The instruments are your window on reality, and you desperately need to understand the data they provide. The only power that can grasp and integrate this evidence correctly is reason, which evaluates experience by logic.

But what happens when an instrument fails? The truth exists in a context, not as a commandment carved in stone from some authority. If, for example, the artificial horizon indicates that you’re flying with the nose well above the horizon, and at the same time the airspeed indicator reveals a high speed with the engine at idle, and the altimeter and vertical-speed indicators reveal a dive, then the artificial horizon is clearly broken. Reality is contextually absolute. The pilot’s task, no less than everyone else’s, is to grasp reality, not to invent it, and we do this by applying reason to the evidence of our experience.

Cheating Reality

Some years ago, a visitor freshly back from the halls of Congress reported a rash of lapel buttons proclaiming that “Reality is negotiable!” I don’t doubt that in the world of Congress, where creative accounting and deception are fine arts honed to a bright shimmer, “reality” may appear to be as malleable under the legislators’ hands as clay in the sculptor’s. But to a pilot asking whether he can get away with cheating the reality of poor or rusty skills in the face of overwhelming weather conditions, reality should be as evidently threatening as if one were contemplating a leap off the Empire State Building, and wondering if flapping one’s arms could allow a gentle touchdown on 34th Street.

I take this relationship between instruments and mind as a metaphor for the wider question of the relationship between reality, broadly understood, the human faculty of reason, and the senses and emotions that also inform the mind. Reality is not relative, as the cultural relativists would have you believe when they tell you that your mind creates your reality. Reality is “out there” (notwithstanding introspection, which is merely thinking about one’s experience). The uniquely human problem is how to grasp it correctly.

For the pilot, the mind must rule.

Feelings, according to cognitive psychology, are automatic, somatic manifestations of our underlying beliefs. (See the work of Aaron T. Beck, Martin E. P. Seligman, Albert Ellis, and especially Nathaniel Branden.) For example, on the instrument panel the artificial horizon shows a picture of an upside-down airplane. If you think you should be flying along straight and level, this sight will arouse fear and confusion. If you are doing aerobatics, rolling the airplane through 360 degrees of bank, this sight will arouse joy and a sense of control. These beliefs operate as the source of our emotions whether they are conscious or not, whether examined in the light of reason or merely breathed in and acted on without a thought.

Our feelings, indulged without examination, will kill us. Feelings, intuition, and emotions are inputs that should be fully heard, but they must never govern our behavior. For those of us whose goal is happiness, it is only with the mind that we can see rightly, for what is essential is invisible to the heart.

In the mud-wrestling contest between the rational faculty and the feelings flooding the mind, the fully trained pilot learns to trust reason and to fight any contradictory emotional and sensory signals with all the power of his love of life, because it is only the power of reason that will save him from destruction.

Following your heart will kill you, as it killed young Kennedy, and thousands of other pilots over the years who have failed to recover from a graveyard spiral. □

**IDEAS
ON LIBERTY**
FEBRUARY 2000



A Much-Deserved Triumph in Supply-Side Economics

“After occupying center stage during the 1980s, the supply-side approach to economics disappeared when Ronald Reagan left office.”

—PAUL SAMUELSON¹

Until Robert Mundell won the Nobel Prize in 1999, supply-side economics had been a school without honor among professional economists. Established textbook writers such as Paul Samuelson (MIT), Greg Mankiw (Harvard), and Alan Blinder (Princeton) frequently condemned the supply-side idea that marginal tax cuts increase labor productivity, or that tax cuts stimulate the economy sufficiently to increase government revenues.

The Laffer Curve—the theory that when taxes are too high, reducing them would actually raise tax revenue—is dismissed. “When Reagan cut taxes after he was elected, the result was less revenue, not more,” reports Mankiw in his popular textbook.² Never mind that tax revenues actually rose significantly every year of the Reagan administration; the perception is that supply-side economics has been discredited. Arthur Laffer isn’t even listed in the 1999 edition of *Who’s Who in Economics*, although the Laffer Curve is frequently discussed in college textbooks.³

Now that is all about to change with Columbia University economist Robert A. Mundell’s

Nobel Prize in economics. According to Jude Wanniski, Mundell, 67, is the theoretical founder of the Laffer Curve.⁴ In the early 1970s he told Wanniski, “The level of U.S. taxes has become a drag on economic growth in the United States. The national economy is being choked by taxes—asphyxiated.”⁵

Mundell offered a creative solution to stagflation (inflationary recession) of the 1970s: impose a tight-money, high-interest rate policy to curb inflation and strengthen the dollar, and slash marginal tax rates to fight recession. Mundell’s prescription was adopted by Reagan and Fed chairman Paul Volcker in the early 1980s. “There’s been no downside to tax cuts,” he told reporters recently.

Yet, oddly enough, Mundell isn’t accorded much attention compared to supply-siders Laffer, Paul Craig Roberts, and Martin Anderson. In their histories of Reaganomics, Roberts and Anderson mention Mundell only once.⁶

Two major studies of supply-side economics in 1982 don’t cite his works at all.

Nevertheless, Mundell has accomplished a great deal worth lauding. In fact, he is considered the most professional scholar of the supply-siders.

Robert Mundell has had an amazing professional career. A Canadian by birth, he has attended, taught, or worked at over a dozen universities and organizations, including MIT,

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University of Washington, Chicago, Stanford, Johns Hopkins, the Brookings Institution, Graduate Institute of International Studies in Geneva, Remnin University of China (Beijing), and the IMF. Before going to Columbia in 1974, he was a professor at the University of Chicago and editor of *The Journal of Political Economy*. Thus the Chicago school can once again claim a Nobel, although Mundell differs markedly from the monetarist school.

Monetary vs. Fiscal Policy

Famed monetarist Milton Friedman says, "I have never believed that fiscal policy, given monetary policy, is an important influence on the ups and downs of the economy."⁷ Supply-siders strongly disagree. Cutting marginal tax rates and slowing government spending can reduce the deficit, lower interest rates, and stimulate long-term economic growth. Mundell counters, "Monetary policy cannot be the engine of higher noninflationary growth. But fiscal policy—both levers of it—can be. . . . The U.S. tax-and-spend system reduces potential growth because it penalizes success and rewards failure."

Mundell favors spending on education, research and development, and infrastructure rather than government welfare programs. He advocates reducing top marginal income tax rates, slashing the capital gains tax, and cutting the corporate income tax. Such policies would sharply raise saving rates and economic growth—"an increase in the rate of saving by 5% of income (GDP), say from 10% of income to 15%, would increase the rate of [economic] growth by 50%, i.e., from 2.5% to 3.75%."⁸

Mundell as Gold Bug

Supply-siders also take a different approach to monetary policy. They go beyond the monetarist policy of controlling the growth of the money supply. Unlike the monetarists, supply-siders like Mundell resolutely favor increasing the role of gold in international monetary affairs. "Gold provides a stabilizing effect in a world of entirely flexible currencies," he told a group of reporters in New York

in November 1999. According to Mundell, gold plays an essential role as a hedge against a return of inflation. He predicted that the price of gold could skyrocket in the next decade, to as high as \$6,000 an ounce, if G7 central banks continue to expand the money supply at 6 percent a year. "I do not think this an outlandish figure. Gold is a good investment for central bankers." He did not foresee central banks selling any more gold. "Gold will stay at center stage in the world's central banking system," he said.

In awarding Mundell the prize, the Bank of Sweden recognized him as the chief intellectual proponent of the euro, the new currency of the European Community. He considers the euro a super-currency of continental dimensions that will challenge the dollar as the dominant currency. The benefits of a single currency include lower transaction costs, greater monetary stability, and a common monetary policy. Mundell advocates an open global economy, expanded foreign trade, and fewer national currencies. Ultimately, he envisions a universal currency backed by gold as the ideal world monetary system. Under a strict gold standard, "real liquidity balances are generated during recessions and constrained during inflations."⁹

Mundell is an optimist as we enter a new century. He's bullish on the global stock markets, the gold standard, globalization, and downsized government. He's my kind of economist. □

1. Paul Samuelson and William D. Nordhaus, *Economics*, 16th ed. (Boston: Irwin/McGraw-Hill, 1998), p. 640.

2. N. Gregory Mankiw, *Principles of Economics* (Fort Worth, Tex.: Harcourt/Dryden Press, 1998), p. 166.

3. Mark Blaug, compiler of *Who's Who in Economics* (Northampton, Mass.: Edward Elgar, 1999), determines the top 1,000 names in the book based on frequency of citation in scholarly journals. Among the famous economists missing the cut are Arthur Laffer, Paul Craig Roberts, and Murray N. Rothbard.

4. Jude Wanniski, *The Way the World Works*, rev. and updated (New York: Simon and Schuster, 1983), p. x.

5. Wanniski, "It's Time to Cut Taxes," *Wall Street Journal*, December 11, 1974.

6. Paul Craig Roberts, *The Supply-Side Revolution* (Cambridge, Mass.: Harvard University Press, 1984) and Martin Anderson, *Revolution* (Stanford, Calif.: Hoover Institution Press, 1990).

7. Milton Friedman, "Supply-Side Policies: Where Do We Go from Here?" *Supply-Side Economics in the 1980s Conference Proceedings* (Federal Reserve Bank of Atlanta, 1982), p. 53.

8. Robert A. Mundell, "A Progrowth Fiscal System," *The Rising Tide*, ed. Jerry J. Jasinoski (New York: Wiley, 1998), pp. 198, 203–204.

9. Mundell, *The New International Monetary System* (New York: Columbia University Press, 1977), p. 242.

CAPITAL LETTERS:



“States’ Rights” and Freedom

To the Editor:

Gene Healy represents a disturbing trend among some libertarians to nostalgically recall the good old days when states were bastions of freedom. Those days never existed; and as James Madison depicts them in *Federalist No. 10*, even at the founding they were such bastions of tyranny that a stronger national government was called upon to restrain them.

The concept of states’ rights libertarianism is oxymoronic. All libertarians know that states do not have rights. States have powers. The purpose of our federal system is to restrict the powers of both national and state governments.

The Fourteenth Amendment was the product of the most libertarian Congress in history. Properly construed, the amendment’s scope is purely negative in the sense of restraining state and local violations of civil rights.

Let’s see . . . John Calhoun versus Roger Pilon and Randy Barnett? Not exactly a tough choice for libertarians.

—CLINT BOLICK
Litigation Director
Institute for Justice
Washington, D.C.

To the Editor:

The complete version of the quotation fragment attributed to me by Gene Healy (from my favorable review of Clint Bolick’s *Grassroots Tyranny* in *Reason*, October 1993) is this: “Most of those who pass for ‘conservatives’ are proponents of ‘states’ rights feder-

alism,’ a hoary legacy of the days of human slavery.”

There I joined Bolick in criticizing “conservatives” who view the states as a bulwark against federal power, but who have no concern about what the states themselves do to diminish the freedom of their citizens. Examples given are Robert Bork and Edwin Meese III, who champion the Tenth Amendment and dismiss the Ninth.

For libertarians, of which I am generally one, the important goal is not to preserve inviolate some magical balance of countervailing governmental powers, but to protect and enlarge liberty. “States’ rights” in our time has meant unpunished lynchings, Jim Crow laws, denial of the right to vote, exclusion from occupations, and countless burdens and humiliations inflicted on black Americans by racist state governments. When libertarians invoke a higher (federal) power to protect liberty against slavery and its lingering incidents, I think they have a strong case. The principle of “states’ rights” cuts both ways, as Healy shows. The principle of liberty works only to advance liberty.

Incidentally, states have no rights. States have powers. Only individuals have rights.

—JOHN MCCLAUGHRY
Ethan Allen Institute
Concord, Vermont

To the Editor:

There he goes again. Last August, in a long article in the pages of *Liberty*, Gene Healy went after my views on the Fourteenth Amendment. My detailed, 7,000-word response appears in the February 2000 issue. Then in the December 1999 issue of *The Freeman: Ideas on Liberty*, Healy took on Clint Bolick, John McClaughry, Randy Barnett, and me—on the same subject, but with more attention to history than to theory. My response here will be brief.

Healy wants to resurrect “states’ rights” as a brake on federal power. Properly understood, so do I. But in arguing against *federal* tyranny, he all but ignores state and local

tyranny, which the Fourteenth Amendment, his principal target, was designed to address. Thus, he says that “libertarian centralists view the federal government as an indispensable partner in the struggle to protect individual rights.” Yes, we do, but that doesn’t make us “centralists” in any serious sense of that word—because the Fourteenth Amendment, properly understood, affords only limited power.

To be sure, the amendment enhanced federal power by providing federal remedies for state violations of individual rights, which the original design had failed to provide. Most such remedies were meant to be secured through litigation in the courts. Contrary to Healy’s contention, however, that does not authorize judges to engage in “moral theorizing,” although it does require them to invoke the classic common law—as implied by the amendment. And section 5 of the amendment gives Congress, when necessary, the power “to enforce” those provisions. Here again, however, that is *not* a power “to comprehensively redesign state and municipal codes,” as Healy claims. Rather, it is a power simply to address *state* violations of rights through “appropriate legislation.”

Have both courts and Congress exercised their powers under the amendment faithfully? Of course not. Whether by design or by misunderstanding, they have often abused their powers. But that is a separate issue, to be addressed on its own terms. Our liberties will be better secured not by abandoning our system of dual sovereignty but by getting it right. That, precisely, is what modern libertarian legal theorists are trying to do.

—ROGER PILON
Vice President, Legal Affairs
Cato Institute
Washington, D.C.

Gene Healy responds:

Clint Bolick begins by trotting out the states-don’t-have-rights-states-have-powers straw man from his 1993 book *Grassroots Tyranny*. (John McClaughry apparently also found the phrase irresistible and irrefutable.) But here Bolick confuses natural rights and

legal rights. No one—no libertarian, at least—who speaks of a violation of “states’ rights” thereby seeks to ascribe natural rights to an artificial, noncognizant entity like a state.

When a libertarian decentralist calls a federal action a violation of “states’ rights,” he means that the federal government has transgressed its enumerated powers and is claiming jurisdiction over an area that the Constitution reserves to the states. In a similar fashion, we can speak of NATO’s lawless assertion of jurisdiction over a civil war in Yugoslavia as a violation of Yugoslav “sovereignty,” without thereby conceding to Slobodan Milosevic’s government a god-given natural right to kill Kosovar Albanians. I’m curious, would Bolick and McClaughry respond to critics of NATO’s cluster-bomb humanitarianism with “states aren’t sovereign, only individuals are sovereign”?

Bolick suggests that the idea of states’ rights has always been anathema to libertarians. Not so. Libertarian decentralists can draw on a host of classical-liberal thinkers who embraced divided sovereignty and viewed centralization in the name of liberty with intense skepticism. Among them: Thomas Jefferson, Lord Acton, Albert Jay Nock, and Felix Morley. In fact, Bolick must know that “states’ rights libertarianism” is not oxymoronic, because he is familiar with Felix Morley’s work. In *Grassroots Tyranny*, Bolick repeatedly cites Morley’s classic *Freedom and Federalism* despite Morley’s embrace of states’ rights and wholesale rejection of Fourteenth Amendment activism. (Morley, who viewed Thad Stevens as an American Robespierre, would also have taken issue with Bolick’s belief that the pro-tax, high-tariff, corporate statist in the Radical Republican junta constituted the “most libertarian Congress in history.”)

As for John Calhoun, Murray Rothbard—who after all knew a thing or two about libertarianism—would have been bemused by Bolick’s notion that Calhoun was far too politically incorrect to be of service to libertarians. Rothbard called Calhoun “one of America’s most brilliant political theorists,” and quoted him at length in *For a New Liberty*.

If Bolick wants his position on libertarianism and federalism to remain the party line, then when that position is challenged he ought to respond with something more than a few sound bites and a dismissive tone. He ought to make an argument or two.

To his credit, Roger Pilon has made an extended argument on behalf of a strong Fourteenth Amendment, in which he grapples with some of the tough issues that position presents. Pilon's argument, and my response thereto, will appear in a forthcoming issue of *Liberty* magazine.

In his letter to *Ideas on Liberty*, Pilon objects to my use of the term "libertarian centralism." I remain comfortable with characterizing Pilon's position in that fashion. The interpretation that Pilon gives to the Fourteenth and Ninth Amendments confers federal jurisdiction over each and every rights violation committed at any level of government, whether it be a municipal recycling program or a local zoning ordinance. If this isn't centralism, the word has no meaning.

Political power being what it is, centralism in the name of liberty is quite unlikely to lead to liberty. Far too much of Roger Pilon's argument for a strong Fourteenth Amendment rests on the words "properly understood." But properly understood, the Commerce Clause, to take one example, merely eliminates interstate trade barriers—it provides no justification for the mammoth administrative state erected in its name. Nonetheless, any anti-federalist transported to late-twentieth century America would consider himself vindicated on seeing what centralism in the name of liberty has wrought.

Murray Rothbard well understood the fragility of parchment barriers to state power.

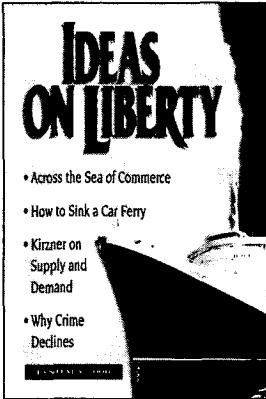
In *For a New Liberty* he wrote of "the inherent tendency of a State to break through the limits of its written Constitution." Rothbard quoted none other than John Calhoun to make the point: "it is a great mistake to suppose that the mere insertion of provisions to restrict and limit the powers of the government . . . will be sufficient to prevent the major and dominant party from abusing its powers."

Pilon sees in the Fourteenth Amendment an effective check on such abuses. I see it as a source of further abuses. Collectivists in Congress and on the federal bench will seize on the expansive construction of the amendment Pilon urges to subvert the very liberties he seeks to secure. In so doing, they are unlikely to be restrained by what Pilon views as the proper understanding of the amendment.

Fragmentation of political power, even—perhaps especially—when such power is invoked in the service of our natural rights, is a surer guarantor of liberty than the goodwill of federal legislators and judges. I'd have thought that this was a respectable position for a libertarian to take. But if, as Bolick and McClaghry suggest, this be heresy—then make the most of it. □

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BOOKS

Domestic Tranquility: A Brief Against Feminism

by F. Carolyn Graglia

Spence Publishing Company • 1998 • 452 pages
• \$29.95 cloth; \$18.95 paperback

Reviewed by Candace Allen

Domestic Tranquility is more than interesting reading if one sees it not as just another book on feminism, but one on what it means to be a woman.

Mrs. Graglia left her law practice in Washington in the 1950s to marry and raise a family. She believes that countless other women would consider the life she chose oppressive and her book answers the challenge with tremendous feminine insight.

But on the subject of feminism the author evidently hasn't had the benefit of reading the work of individualist feminist writers Wendy McElroy and Joan Kennedy Taylor. It's too bad. She no doubt would have avoided the tiring and stereotypical approach taken by anti-feminists. But on to some good points.

Mrs. Graglia discerns the totalitarian bent of most feminists. She introduces one chapter with an F.A. Hayek quotation regarding spontaneous order as opposed to deliberate construction of social order. Then she argues that the very "success" of feminism has been the imposition of legislation (for example, the "no-fault" divorce laws) that impose perverse incentives on wives and husbands who may otherwise have chosen a traditional family arrangement.

Yes, legal mandates intended to design specific social change have contributed to the demise of marriage and two-parent families. She realizes that institutions, evolving over time, serve to facilitate harmonious social interaction and that they are certainly preferable to interventions of the state. No-fault divorce, federally funded daycare programs, tax incentives rewarding unmarried parents, and abortions for minors change incentives

and adversely affect the institutions of marriage and family.

She does not actively seek policy intervention, but suggests tax breaks for married couples with children cared for at home as a legal antidote to the social outcomes sought by social feminists. But the crux of the issue should be that tax policy has unintended consequences, and trying to offset the bad consequences with the good usually backfires.

Missing from the book is evidence of any awareness that licensing restrictions, heavy taxation, business-entry and technology-related regulations, certification, and testing all prevent women from discovering creative ways to remain home- and family-centered. The vitality of any social institution depends on the ability to adapt to changing circumstances. Certainly, technology is offering women more time-saving opportunities and on-hand resources to create and run part-time or full-time businesses from their homes without diminishing the quantity or quality of time spent with their families. Mrs. Graglia would have made a better case if she were more conversant with the free-market critique of interventionism.

Unshackling market opportunities might provide the trump cards for individuals who can use their human capital within the market order in ways that over time will encourage the longevity of the traditional family unit. Mrs. Graglia might not welcome this idea, as she views the market as something happening quite apart from family life. It's unfortunate that she characterizes "market production" only as competitive and fails to grasp the underlying structure of cooperation based on voluntary exchange.

Moreover, she apparently doesn't value the market order as a self-organizing social institution and seems unaware of the important role that individualist feminists have played in equalizing freedom of exchange for individuals. The socialist feminist movement that Mrs. Graglia abhors is quite apart from individualist feminism.

Throughout our history, the intent of individualist feminists has been to change the general rules of society to apply to men and

women alike. The right to own, control, and dispose of property and to make contracts, expecting that they will be enforced, are important examples. Individualist feminists seek the economic and legal freedoms that allow any woman to become her best self.

Mrs. Graglia attacks only collective, or socialist, feminism. She does so effectively. Alas, it is not clear whether her rejection of authoritarian feminism implies acceptance of individualist feminism that seeks common legal treatment and liberty for all human beings. ☐

Candace Allen is southwest regional coordinator for the National Foundation for Teaching Entrepreneurship (NFTE).

Shattered Lives: Portraits From America's Drug War

by Mikki Norris, Chris Conrad, and Virginia Resner

Creative Xpressions Press • 1998 • 118 pages
• \$19.95 paperback

Reviewed by Paul Armentano

Although many writers criticize the drug war, few, if any, more poignantly illustrate its human casualties than the authors of *Shattered Lives: Portraits From America's Drug War*.

Mikki Norris, Chris Conrad, and Virginia Resner paint a human face on the thousands of incarcerated Americans serving out drug sentences:

- Americans like Joanne, Gary, and Steve Tucker, together serving 36 years for selling legal hydroponics gardening equipment from their family-owned store. Prosecutors charged and convicted them with conspiracy to manufacture marijuana based on the offenses of a handful of their customers and on the Tuckers' refusal to allow DEA agents to install surveillance cameras in their store.

- Grandfathers like Loren Pogue, 64, serving 22 years for conspiracy to import drugs and money laundering. Pogue helped a paid government informant sell a plot of land to

undercover agents posing as "investors." The buyers, whom Pogue met only once, allegedly were to use the land to build an airstrip for smuggling drugs. That there were no actual drugs involved, that Pogue was an upstanding citizen with no prior drug history, and that the airstrip was never built failed to mitigate his virtual life sentence.

- First-time offenders like Will Foster, sentenced to 93 years by an Oklahoma jury for cultivating marijuana for the purpose of alleviating pain associated with rheumatoid arthritis.

These are the seldom seen victims of our nation's growing drug war hysteria, unfortunate casualties of more than 80 years of lies, propaganda, and political posturing.

Shattered Lives pays special attention to the families torn apart by drug prohibition and the children left behind in its wake. "I have four children who all live with family, but in separate homes and towns," recalls Jodie Israel, 34, a first-time, nonviolent offender serving 11 years on marijuana conspiracy charges. "It is so hard to explain to a child why you can't be with them and I believe it puts a tremendous burden on their little hearts. . . . It is not just the prisoners doing time, it is our families, too. I believe it is just as hard on them as it is on us."

Jodie's story, and her family's plight, are not unique. The authors profile dozens of cases where the punishment is inappropriate to the "crime." Consider the case of David Ciglar. "My family is devastated," writes Ciglar, 39. A former firefighter who saved more than 100 lives, Ciglar is now serving a ten-year mandatory minimum sentence for marijuana cultivation. Authorities also seized his family's home. "My wife live[s] every day wondering if she can make it financially and mentally. My kids don't know why their Dad was taken away for such a long, long time."

According to the Department of Justice, 1.7 million Americans subsist behind bars and one out of 35 Americans lives under the direct control of correction agencies. This inflating prison population, one that stands six to ten times higher than those of most Western European nations, is largely attributable to the

war on drugs and the increasing prevalence of mandatory-minimum sentencing. Dubbed the "law of unintended consequences" by U.S. Supreme Court Justice William Rehnquist, mandatory sentencing shifts judicial discretion from judges to prosecutors.

Mandatory-minimum laws were first introduced in the 1950s, but lawmakers eventually repealed them because of their inflexibility. However, to appear "tough on drugs," Congress reintroduced mandatory-minimum sentencing in the 1980s and they are now applied almost exclusively in drug cases. According to Judge Franklin Billings, these laws deny judges "the right to bring their conscience, experience, discretion and sense of what is just to the sentencing procedure. [I]n effect, [mandatory sentencing] makes a judge a computer, automatically imposing sentences without regard to what is right and just."

Shattered Lives is based on the award-winning photo exhibit "Human Rights: Atrocities of the Drug War." All three authors served as curators and coordinators for the exhibit, originally constructed in 1995 in conjunction with the United Nations' 50th anniversary. Like its predecessor, *Shattered Lives* has both a literary and visual impact on the reader. The book's oversized format makes even more compelling the portraits of those forever scarred by the excesses of drug prohibition.

If the ultimate goal of art and the written word is to move the reader, then *Shattered Lives* succeeds as have few analyses before. □

Paul Armentano is a senior policy analyst for The NORML Foundation, a Washington, D.C.-based research and legal foundation that examines marijuana policies.



Teachers Evaluating Teachers: Peer Review and the New Unionism

by Myron Lieberman

Transaction Publishers • 1998 • 137 pages
• \$19.95 paperback

Reviewed by Matthew J. Brouillette

After decades of denial, the National Education Association (NEA) and the American Federation of Teachers (AFT) finally concede that maybe their organizations have been an impediment to K-12 education reforms that seek to ensure classrooms are populated with only qualified and capable educators. Their solution? "Don't worry; let us handle it."

NEA and AFT officials, who have in the past fought ferociously to protect the jobs of unqualified or incompetent teachers, are now proposing a "new unionism" that focuses on teacher quality. The keystone to the unions' new reform agenda is the "peer review" process in which teachers continuously evaluate the performance of their colleagues. In this book Myron Lieberman, a former candidate for president of the AFT, tests whether or not this new unionism truly represents a different direction for organizations that for years have resisted change tooth and nail, or if it instead offers only the appearance of reform.

Peer review is a procedure culminating in decisions about whether to renew contracts of first-year teachers, to grant tenure, or to allow teachers to provide assistance to struggling tenured teachers without any implication for adverse action. In other words, teachers themselves are asked to take collective responsibility for improving the teaching profession.

Although peer review costs schools more than traditional administrator-teacher evaluations, Lieberman argues that this is not necessarily a reason to reject it. "The question," he writes, "is whether any additional benefits are worth the additional costs." To answer that, Lieberman examines two peer-review programs in operation in Ohio's Toledo and Columbus school districts. Toledo began its program in 1981; Columbus implemented a

similar plan in 1986. Both programs obliged their districts to hire additional staff and devote significantly more resources to their evaluation processes than previously required by traditional evaluations.

Are the programs working? In Lieberman's words, "it is highly unlikely that peer review [is] more effective than conventional procedures in weeding out unqualified teachers." Over an 11-year period, 95 percent of first-year teachers in Columbus were recommended for re-employment. During this same period, 178 tenured teachers were identified as ineffectual and in need of assistance, but only two teachers were terminated. The obvious question arises: Did the peer-review process actually improve the teaching of 176 teachers in the district? Lieberman concludes that there is no way to measure whether this has been more effective in weeding out poor teachers and improving those who were identified as needing assistance. "For all we know," Lieberman says, "peer review keeps incompetent teachers in the classroom longer than conventional procedures did or would."

Union officials, of course, have a different perspective on peer review's effectiveness, claiming that it is the best method by which incompetent teachers can be removed from the classroom. As of early 1998, however, no functioning peer-review plan had any authority to exclude a teacher from teaching in another school district. Therefore, says Lieberman, peer review is at best a procedure to determine whether a teacher will be employed in one particular school district. Instead, he writes, an honest evaluation of these programs "requires recognition of the possibility that peer review may result in a lower quality of instruction" because it can take excellent teachers out of the classroom, where they belong, to serve instead as "consulting teachers" who evaluate other educators.

The success of peer-review programs should be indicated by marked increases in teacher competence, which in turn would lead to gains in student academic performance. But Lieberman finds no evidence that student scores on standardized tests have improved in school districts that have programs in place.

In fact, at no time has anyone—including peer review's strongest supporters—demonstrated that achievement has gone up as a result of such programs.

Lieberman makes a strong case that peer review has little potential for improving education. In fact, the model peer-review programs are not demonstrably better than traditional approaches to reviewing teachers. Lieberman concludes that "Peer review illustrates the point that, for certain union purposes, the belief that educational reform is taking place is more important than the reality."

Teachers Evaluating Teachers is must reading for those interested in understanding how the teacher unions are attempting to reshape themselves as leaders of the education reform movement. Lieberman's book demonstrates how peer review and "new unionism" are actually an effort to maintain the status quo. □

Matthew Brouillette, a former teacher, is associate director of education policy at the Mackinac Center for Public Policy in Midland, Michigan.

Experiment in Liberty

by William Moore Gray III

Sunflower University Press • 1998 • 388 pages
• \$34.95

Reviewed by Burton Folsom

Experiment in Liberty is an experiment by a certified public accountant in writing a history of the United States. It is sometimes a flawed experiment and often idiosyncratic in organization; but this book is nonetheless more reliable than most texts now being used in high-school and college classrooms across the country, as it places liberty rather than the state at the center of our history.

In tracing American history, Gray looks at the impact of liberty on our political and economic development. Liberty, he argues, has been the key to American progress, with government a gaudy but unproductive sideshow. That is a vital shift from the common approach that leads the reader to believe that government is the driving force.

Experiment in Liberty is rather thin on the colonial period, but ably covers the American Revolution and economic development thereafter. On Alexander Hamilton, Gray is, I believe, too negative. It's true that Hamilton involved the federal government in activities beyond the scope of Article I, Section 8, of the Constitution. But he ought to be commended, not criticized, for helping to redeem the near worthless Continental bonds and thereby establish U.S. credit at home and abroad. Gray overreacts when he concludes that if Hamilton "had . . . not been martyred by falling to Aaron Burr's bullet in a duel . . . he would likely have disappeared quietly from the pages of history."

The author does a good job of tracing westward expansion and the industrial growth of America during the nineteenth century—again a result of the actions of free individuals operating under a system that protected life, liberty, and property. On the rise of big business, Gray ignores the standard historical line and sagely concludes that "envy and fear describe in a nutshell what drives the criticism of trusts and monopolies."

Gray is also sharply critical of the Progressive Era and the New Deal. He points out the dangerous concentration of power in Washington that began so forcefully early this century and takes a dim view of the justifications advanced for subjecting people to the yoke of federal bureaucracies.

However, he should have hit the problem of the income tax harder than he did. Tax rates, contrary to Gray, did not remain low until 1943. During World War I, the rate on top incomes was hiked to 77 percent; it came down to 24 percent in the 1920s, but shot up first to 79 percent and then to 90 percent under FDR. Understanding the history of the income tax is understanding twentieth-century America, and here Gray lets the reader down.

Unlike many history texts, *Experiment in Liberty* recognizes the deluge of problems with the growth of government from the Great Society era to the present. Gray frequently quotes John Stuart Mill, F. A. Hayek, and Ludwig von Mises in advocating greater individual choice and less government regulation

in modern American life. His refusal to take at face value the usual claims that government programs work and must correct for "the failures" of the free market sets this book apart from the run-of-the-mill history of the United States.

Gray properly criticizes the United States for its Indian policy, but his analysis is sometimes simplistic. The Indians often were paid for their land and sold it voluntarily. If he had studied the fur trade, he would have seen Indians and whites in a market economy frequently working well together. The American Fur Company, under John Jacob Astor, did more for the American Indian than did government paternalism, which led to Indian removal.

Concerned parents—who are looking for sensible histories of the U.S. for their high-school and college-age children—will be pleased with this book. It's a sad state of affairs when retired accountants write better histories of our country than do the historians, but that is the case at present. Gray has served up an excellent feast of information on liberty in the United States, and its essential role in creating American health and prosperity. □

Burton Folsom is historian in residence at the Center for the American Idea in Houston and author of several books, including The Myth of the Robber Barons.

Regulation, the Constitution, and the Economy: The Regulatory Road to Serfdom

by James Rolph Edwards

University Press of America • 1998 • 256 pages
• \$52.00 cloth; \$32.50 paperback

Reviewed by M. Royce Van Tassel

James Rolph Edwards invokes a Hayekian legacy in the title of his book, *Regulation, the Constitution, and the Economy: The Regulatory Road to Serfdom*. In light of Hayek's belief that freedom cannot endure unless every generation restates and reemphasizes its value, this book is quite timely. The message is not new, but it is certainly one that needs to be stressed again and again.

Edwards, professor of economics at Montana State University-Northern, examines regulation from three perspectives: historical, constitutional, and economic. The command-and-control mechanisms of the modern welfare state, he observes, are not modern innovations, but musty relics mirroring the authoritarian, mercantilist policies of bygone centuries. In the social evolution from relationships based on status to relationships based on contract, regulatory agencies are an about-face.

Furthermore, by combining legislative, executive, and judicial powers, regulatory agencies obliterate the constitutional system of checks and balances. Even some so-called liberals are now starting to see the dangers in permitting so much power in one place.

From an economic perspective, regulation often cartelizes industries and stifles competition, thereby artificially raising prices above what would prevail in a competitive market. Far from helping consumers, as widely believed, regulation benefits interest groups that know how to manipulate the political process.

Summarizing the literature on regulation, Edwards exposes both the inefficiency and immorality of modern regulatory agencies like the National Labor Relations Board, the Food and Drug Administration, National Highway Traffic Safety Administration, and Occupational Safety and Health Administration. Edwards asserts that the ideologues staffing these agencies “wish to exercise coercive power over others, either because that is what they enjoy or from [an] egotistical belief that others are too stupid or immoral to be left free.”

On the basis of his historical, political, and economic analyses, Edwards explains why the nature of the federal government changed so dramatically between 1870 and 1937. He maintains that “government growth in America has been related to episodic crises.” Robert Higgs has made that point about the consequences of both world wars. Edwards argues, however, that these changes are the outcome of more fundamental changes that followed the Civil War, conferring on the federal government greater powers than it had ever enjoyed.

He discusses how a series of obscure but critical Supreme Court decisions following the Civil War, culminating in the fateful “switch in time that saved nine” in 1937, permitted and even endorsed socialist redistributionist principles. To cite but one decision, in the 1877 case. In *Munn v. Illinois* the Justices stated that “Property used in a ‘public’ fashion, affecting the public at large, grants the public the right to control it for the public good.” This amounts to saying that the act of employing private assets in business automatically transforms them into public property, to be politically regulated at will. A clearer expression of socialist principle would be difficult to find.

While subsequent Courts tried to narrow the application of this principle, none have recognized that this principle knows no bounds. As the Court demonstrated in the infamous case *Wickard v. Filburn*, even grain that never went, or even was supposed to go, to market can be subjected to public control.

While his assessment of regulation is accurate, Edwards has overlooked a fundamental issue. The Founders believed that a constitutional system that depends on good behavior by politicians would fail. In establishing a system of constitutional checks and balances, the Framers felt they had avoided that defect. However, as Edwards shows, a mere change of judicial opinion sufficed to upset the constitutional order. He rightly laments America’s departure from its constitutional order, but never asks why the Framers’ system failed. If the defect lies not in ephemeral academic or public opinion, but in the Constitution’s vulnerability to such changes, then we must continue to endure burgeoning regulation and other forms of extra-constitutional controls over our lives and property.

Edwards also fails to adequately acknowledge his debt to Hayek’s *The Road to Serfdom*. Aside from the subtitle, the only reference to it is an oblique mention buried in the last footnote of chapter three. Those familiar with Hayek’s classic will quickly recognize the reference; however, it cannot speak to those unfamiliar with his great work. In a book specifically referring to Hayek, the author ought to have clearly articulated the

origin and importance of the phrase “The Road to Serfdom.”

Finally, because of the numerous editing errors permeating the book, I would recommend waiting for the second, and hopefully cleaner, edition. □

Royce Van Tassell is director of research with the American Civil Rights Institute in Sacramento, California (www.acri.org).

Hoodwinking the Nation

by Julian Simon

Transaction Publishers • 1999 • 140 pages • \$29.95

Reviewed by George C. Leef

Julian Simon was an energetic, irrepressible, and effective champion of freedom. His untimely death in 1998 silenced a voice—arguably the foremost voice—of reason on the subjects of population, resources, and the environment. The word “irreplaceable” comes to mind when one thinks back over his career as an opponent of faddish nonsense.

I had occasion to speak with him only once. Back in 1997, I asked him if he would like to review a book for this magazine. He recommended his wife, Rita Simon, as a better reviewer for that particular volume, but we then got to talking at length. What an optimistic, engaging, and friendly man he was. His books mirrored him—brimming with life, full of insight.

In *Hoodwinking the Nation*, Simon analyzes the various reasons why the crusading doomsayers who want Americans to believe that we are running out of resources, polluting ourselves to death, and overpopulating the planet have succeeded as much as they have (which, to judge from public opinion polls, is considerably). This book is not a debunking of pernicious falsehoods but rather an attempt to understand why they so often spread like wildfire.

The news industry is the principal villain. Incompetent or ideologically motivated reporters are the dry kindling in the forest through which scientific and economic disinformation spreads fast. Bad news sells, so

reporters are naturally drawn to predictions of calamity and frequently fail to check out reports before putting dubious material before the public. Moreover, even after a bit of scare-mongering has been utterly refuted, reporters have little interest in setting the record straight.

Simon provides the “vanishing farmland” panic as a case study. The story began in Illinois in 1979, where he was teaching at the time. Farmland was supposedly being lost to urbanization at an “alarming” rate. The basis for the assertion was a report by the Champaign County Soil and Water Conservation District that 30,000 acres of farmland had been lost between 1960 and 1978. Simon sensed the impossibility of the figure and did some checking. Agricultural acreage that had been shifted to other uses was far less than claimed, and he eventually got the Illinois Department of Agriculture to admit that the numbers tossed around by Champaign County were “grossly inaccurate.” But no matter. Reporters had swallowed the report whole without scrutinizing it. If there were any stories written to correct the false impression that our ability to produce food is in danger from greedy suburban developers, they were buried where no one would see them.

Journalists also come in for criticism because, Simon observes, they use their “standard reportorial methods of interview and adversarial discussion of facts” when dealing with difficult policy issues, although these issues call for different methods. Usually reporters, when writing about population, pollution, or resource economics, employ the same methods they use for everyday phenomena, such as trials or tornadoes, when what is needed is the scientific method. Simon writes, “Scientific discipline is necessary when the chunk of the world you wish to understand presents a complex, varied, off-again-on-again picture that includes data dispersed over time and geography.” Unfortunately, few journalists know the scientific method and therefore write stories when there is really no story at all.

Suppose that an “environmentalist” group, let’s call it the Coalition to Save Our Planet (CSOP), releases a “study” purporting to show that microwave ovens are disturbing the

migratory instincts of merganser ducks and calling for a ban on the production of microwaves. Fuzzy-minded reporters are the main targets of the study. CSOP knows that at least some will write about it, cranking out a “dueling experts” piece that will quote first the report and a spokesman for CSOP, then get a response from someone from the microwave oven industry denying the problem, and finally coming back to CSOP for a “what would you expect from those greedy capitalist pigs and shouldn’t we err on the side of safety” clincher. Thus is the public led to further believe that technology is a threat. To write anything at all about such reports is a victory for the technophobes, but reporters

often do so because they aren’t able to filter out junk science.

Simon was optimistic that the fast-moving revolution in communications would help to blunt the rapier of scientific disinformation. “The more competitors in the news marketplace, the better. The greater the number of firms, the more it will be profitable for at least a few of them to show how others are scandalously misinforming the public,” he wrote.

This is a witty, readable, and most valuable book. It’s sad that we shall have no more from the pen of Julian Simon. □

George Leef is director of the Pope Center for Higher Education Policy at the John Locke Foundation and book review editor of Ideas on Liberty.



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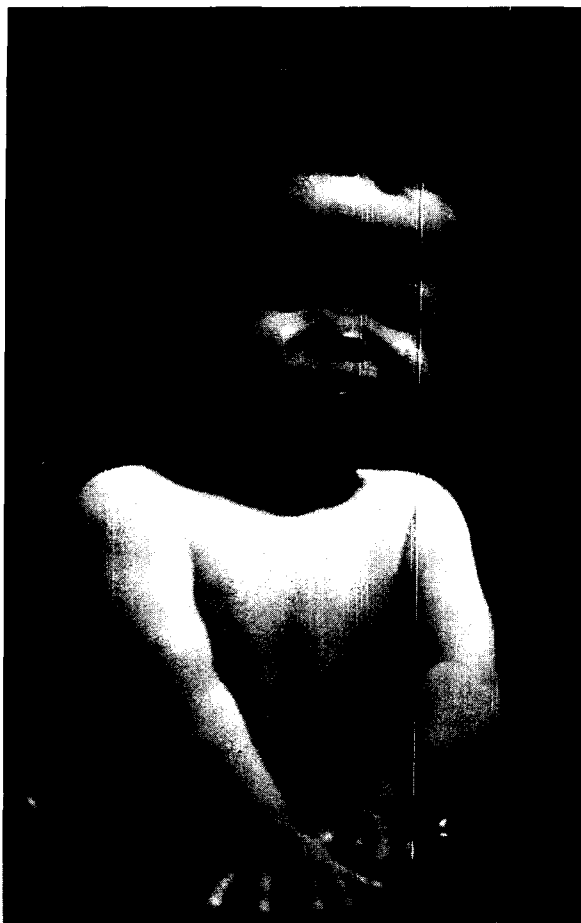
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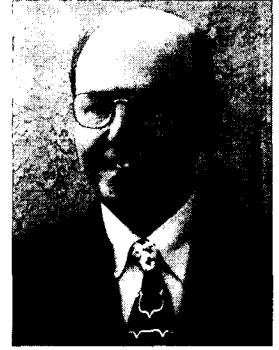
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Unions and Antitrust: Governmental Hypocrisy

Section 1 of the Sherman Antitrust Act states that “every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce . . . is hereby declared to be illegal.” Notwithstanding that the antitrust laws have been used to favor particular competitors rather than the competitive process, the Act implies that the federal government stands for open markets.

However, on top of its other failings, antitrust law is a particularly egregious example of government hypocrisy because Congress has exempted unions. That is how the U.S. Supreme Court interprets the Clayton Act (1914) and the Norris-LaGuardia Act (1932). Moreover, Congress has gone further with the National Labor Relations Act (NLRA), which promotes and protects unions as combinations of workers in restraint of trade.

Economists define a cartel as an agreement among sellers (or buyers) of a product or service to eliminate or restrict competition among its members. For example, if General Motors, DaimlerChrysler, and Ford attempt to fix prices and assign sales quotas, that organization would be a cartel and illegal under the Sherman Act. (Whether it should be is another story.)

Similarly, if the employees of General Motors, DaimlerChrysler, and Ford organize to fix wages (set a standard union rate) and set

up job demarcations (specify who does what work) that organization would be a cartel. Using ordinary English, the worker cartel (union) would be a combination in restraint of trade, but it would not be illegal under the Sherman Act.

The Clayton and Norris-LaGuardia Acts give unions a statutory exemption regarding specific “anticompetitive” activities, including secondary boycotts, picketing, and strikes. Whenever unions undertake other activities that are not specifically exempted, but which are “anticompetitive,” they, too, are declared exempt simply because they must be in order to make the NLRA effective.

For example, in the *Allen Bradley* case (1945) the Court ruled that collusion between unions and employers that restricts competition in labor markets is exempt, but collusion is not exempt when it restricts competition in other markets. Yet restrictions on competition in labor markets necessarily affect other markets. Every collective bargaining contract is the result of joint action of an employer and a union to fix wages and work rules in a labor market, and this necessarily affects the prices and availability of the goods and services produced by that labor. The Court had to make this spurious distinction to avoid contradicting the NLRA.

Ignoring Constitutional Principle

A basic principle of the rule of law under the U.S. Constitution is equal treatment under the law. The statue of Justice wears a blindfold

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signifying that all courts, including the U.S. Supreme Court, should apply the same rules to all irrespective of their identities and circumstances. There is not supposed to be one set of rules for some and a different, contradictory set of rules for others. But when it comes to antitrust, courts routinely ignore the rule of law.

Consider *Hunt v. Crumboch* (1945). A union used its closed-shop contracts (which when forced on employers are anticompetitive) with shippers to drive a trucking firm out of business simply because the union leaders didn't like the owners. All the shippers with whom the target firm might have done business had agreements with the union that they would use only unionized truckers. The target was willing to unionize, but the union refused to accept any of the target's employees into the union or to supply the target with any unionized drivers. Simply put, out of pure malice, the union drove the target firm out of business through its legally privileged combinations in restraint of trade. These activities were declared legitimate because, and only because, they were carried out by a labor union. The Court conceded that "Had a group of petitioner's business competitors conspired and combined to suppress petitioner's business by refusing to sell goods and services to it, such a combination would have violated the Sherman Act." Hypocrisy replaced the rule of law.

The Remedy

One who understands the competitive market process knows that so long as combinations in restraint of trade are not supported by government, they are unlikely to be launched, and if launched they will quickly collapse when members cheat on one another and discover ways to compete not covered by the cartel agreements.

The remedy for governmental hypocrisy in antitrust is not to apply antitrust regulations to unions. Antitrust regulations are inconsistent with the principles of a free society. They are not needed and they are never used to protect the process of competi-

tion. The last thing we need is for bad law to be applied equally.

There is only one way for a free society to treat business enterprises and unions equally with respect to antitrust—apply the law to neither. Depend on the open market process to maintain competition. Government's role is merely to enforce the rules of property, contract, and voluntary exchange.

However, doing away with antitrust regulation is not enough. Government must cease supporting combinations in restraint of trade. This means the NLRA must be repealed and replaced with voluntary unionism. Some may dismiss this proposal as politically impossible. But nothing of value will ever be accomplished if innovators only propose what seems to be politically possible. History is replete with stories of the politically impossible becoming the status quo. In the 1950s the abolition of Jim Crow laws in the United States seemed politically impossible. Until the early 1990s the abolition of apartheid in South Africa seemed politically impossible. In comparison, the abolition of compulsory unionism seems not much at all.

There is an excellent real world model for the abolition of compulsory unionism—New Zealand. In 1991, the New Zealand Parliament enacted the Employment Contracts Act, which eliminated most forms of compulsory unionism. Today, individual workers are free to decide whether to represent themselves or to authorize an agent to represent them in bargaining for wages, salaries, and other terms and conditions of employment. Unions may represent only their voluntary members. There can be no forced membership or forced dues. Employers and workers are free to choose whether to enter individual or collective contracts. An employer may have individual contracts with some workers and collective contracts with others. All arrangements are made and carried out on the basis of mutual consent. Competition among alternative forms of labor representation is unrestricted and unregulated. The rule of law in labor relations has been re-established in New Zealand. We must do the same in the United States. □

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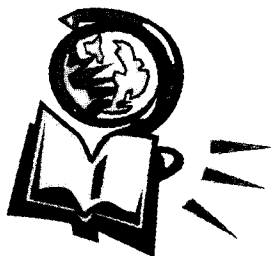
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—RICHARD COBDEN (1804–1865),
from *Russia* (1836)

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